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# ***JPRS Report***

## **China**

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# China

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## GENERAL

### Overview of Asian Regional Security Issues

94CM0390A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 7, 20 Jul 94 pp 2-7

[Article by Yan Yang (3601 2799) and Chu Dao (2806 0430): "Asian Regional Security Issues and the Basic Attitudes of Various Parties"]

[Text] Following the Cold War and the disintegration of the confrontational situation of the two superpowers in the Asian region, a multipolar situation has come into being, characterized by multilateral cooperation and mutual consideration. A trend towards relaxation of tensions, stability, and development has become the main current in the region. The axis of international affairs has shifted from military confrontation to economic competition and cooperation, and each country, in order to develop its economy, is striving to establish a good external environment, and is actively promoting a regional multilateral security dialogue. [passage omitted]

However, in the wake of the developing situation, the Asian region's unresolved factors and destabilizing factors are also becoming complex in terms of the development of regional security.

First, the strategies of some important powers and their policy directions are not yet clear, and prospects for the development of great nation relations are still indeterminate. The strategy of the United States is "Europe first, Asia second," but is also "lay equal stress on Europe and Asia." The United States is determining how to seek balance between maintaining its present commercial interests and promoting European and U.S. values, and its final design has not yet been finalized. Japan finds itself in the third historical turning point since the Meiji Reformation [of 1868], and has become a "peaceful and internationally contributing country," but is also walking the path militarily of "playing the role" of a "miniature superpower," while the internal debate is still developing. The political prospects for Russia remain unclear, and its economic reform, military, and foreign policy strategies are all being revised. If the internal nationalist forces gradually come to the fore, this is bound to affect Russia's Asian policy, and both Russia-U.S. and Russia-Japan relations.

The mutual relations between Asia's five large powers at present do not yet constitute a stable situation. In the U.S.-Japan-China triangle, the Japan-China side is comparatively stable, but the U.S.-Japan, and U.S.-China sides are faced with readjustments. The strategy of the United States and policy changes are one of the leading factors affecting great country relations in the Asia-Pacific region. Recently, the United States has relaxed pressure on Japan on trade issues, extended most-favored-nation trading status to China, and changed its attitude on solving the North Korean nuclear issue, and its policies towards Asian countries appear to be undergoing revision. However, as long as the United States continues to promote Western

values as the mainstay of its Asia strategy, the internal contradictions between its Asia strategy to maintain its current commercial interests and to promote a Western value outlook will make it difficult to achieve a fundamental alleviation of the problem. At the same time, the contradictions in U.S.-Asian relations in the economic trade realm and the friction caused thereby will also increase, while the U.S.-Japan rivalry to become the region's dominant power will also develop.

Second, within the region, the phenomenon of "reverse disarmament" has arisen, with the development and emergence of local military strength. Following the disappearance of the "Soviet menace," countries have lost the goal of a common sense of vigilance, and there is no clear way to determine from which direction the "menace" may be coming; the Asia-Pacific region has not yet formed the type of regular security system that Europe has, and each country, because of worries about the emergence of a power vacuum, works towards military modernization. The ASEAN countries in 1993 increased their military outlays by some 13.5 percent on average, and military strategy has changed from a land-based internal model, into a sea-based, externally oriented one. Malaysia, the Philippines, and Singapore now stress strengthening the quality of their navies and air forces in building up their military, and they devote great effort to the development of small-scale mobile missile naval forces, submarines, and helicopter carriers in order to increase their ability to control the sea and the air and to improve their antisubmarine warfare capability. Vietnam is pursuing a "stress quality" military buildup policy, concentrating on revising the proportions among the service arms, and it intends to increase the proportion of naval and air forces by 13 and 16 percent respectively. What has particularly attracted attention is Japan's active revision of its defensive policy, and its devoting of great effort to strengthening its military power, particularly the import, production, and outfitting of their military with weapons using the most advanced technologies, so that Japan has already become the only country among the seven Western powers to continue to increase its military expenditures, the total of which is now second in the world.

Third, the probability of rising temperatures and reversals on some hot issues cannot be ruled out. In Northeast Asia, early last year the United States and South Korea resumed the "Team Spirit" joint military exercises, and North Korea asserted that it would withdraw from the nuclear Non-Proliferation Treaty (NPT), again plunging the Korean peninsula into a tense situation, and dealing a serious setback to the course of easing of tensions. More than one year later, the various sides revolving around the struggle on the North Korean nuclear issue have fallen into a rhythmic pattern of ups and downs, with one wave breaking into three directions, and one crisis following the subsidence of another. In the middle of June, after the visit to North Korea of the former president of the United States, Jimmy Carter, the situation on the peninsula took a turn for the better, but denuclearization of the peninsula,



relations between North and South Korea, and the regularization of North Korea-U.S., and North Korea-Japan relations, issues involving the interests of many parties, are very difficult to smoothly and fundamentally resolve. In Indochina, on the Cambodian issue, the internal situation has undergone a drastic change since taking a course towards political resolution in May 1993. The new government and the forces of Democratic Kampuchea [Khmer Rouge] have resorted to the use of arms, and after the failure of the two National Reconciliation Roundtable Conferences convened by the two sides in May and June, the Khmer Rouge in July were declared outlawed by the Government.

### **I. Security Strategies of the Major Powers in the Asia-Pacific Region**

In the wake of the changes in the development of security postures in the Asia-Pacific region following the conclusion of the Cold War, the major countries and regional groups have correspondingly adjusted their own security strategies, and one after another have explored new security mechanisms.

**1. The United States, within the concept of the "New Pacific Community," has comparatively clearly pointed out the U.S. security strategy in the Asia-Pacific region:** It is newly affirming the U.S. military commitment to the Asia-Pacific region, continuing to maintain bilateral alliance relations with the five countries of Japan, South Korea, the Philippines, Thailand, and Australia, and is maintaining the deployment of forward-based military forces in Japan and South Korea. On this basis, it has made some major adjustments to the Bush administration's security strategy. This primarily involves the beginning of a switch in focus towards tackling regional conflicts and protecting against any large-scale proliferation of weapons of "mass destruction," launching a new regional security dialogue, and promoting the cooperation and participation of each country on regional security issues, while pondering the use of a multilateral security dialogue to replenish and strengthen bilateral security treaties. At present, at the same time as it supports the ASEAN-initiated regional security forum, the United States is striving to gradually expand the functions of APEC [Asia Pacific Economic Cooperation] to a variety of areas and to make it become an organization for discussions that include Asia-Pacific security.

**2. Japan has proposed establishment of a "multi-layer structure" regional collective security system.** On the issue of regional security, Japan has changed from its past cautious attitude and is proposing establishment of an Asia-Pacific security system that pushes the Japan-U.S. alliance as the core and that is based on a strategy of having Northeast Asia participate with Southeast Asia. Japan stresses that, in terms of Asia-Pacific military affairs, the United States is still the key to the security of the Asia-Pacific region. Japan is advocating taking the ASEAN foreign ministers expanded meeting as the basis for establishing an Asia-Pacific security dialogue system, considering that "the Asia-Pacific region's greatest characteristic

is its diversity, and the fact that the source of threats is also not the same," and for regional conflicts, "what is most effective is resolving these through mechanisms appropriate to a given situation," "having discussions of Asia-Pacific security issues be subordinate to the ASEAN foreign ministers expanded meeting will be the most effective approach." At the same time, Japan is pushing a bilateral and multilateral security dialogue in Northeast Asia, and at present, the United States, Japan, and South Korea have already launched a variety of consultations on regional security issues.

**3. ASEAN advocates using the ASEAN foreign ministers expanded meeting as a basis, using the ASEAN regional forum as a stage, and actively giving full play to major functions in multilateral Asia-Pacific security discussions.** Following the Cold War, the countries of ASEAN have correspondingly readjusted their internal and external development strategies, and strengthened and accelerated their own development, working hard through the "three-conference system" (ASEAN foreign ministers conference, foreign ministers expanded meeting, and ASEAN regional forum) to influence the development of the Asia-Pacific situation and guide regional affairs. In the wake of the U.S. military contraction and the collapse of the Soviet Union, there has been timely adjustment of the regional security strategy, implementation of an independently initiated security defensive posture, and attempts to establish a security system guided by ASEAN, while it has proposed the establishment of an ASEAN regional forum with the participation of 18 countries.

**4. Russia wants to focus on Northeast Asia and actively participate in Asia-Pacific security affairs.** Russia has proposed using a "Northeast Asia regional multilateral consultative system" as a first step to promote multilateral talks between the whole Asia-Pacific region and subregions, and to this end to open up the Far East, and develop economic cooperation to produce a beneficial international environment. At present, Russia is actively participating in the affairs of the Korean peninsula and has proposed using a "6+2 international meeting" (Russian, China, the United States, Japan, North Korea, South Korea, plus the UN Secretary General and the Director General of the International Atomic Energy Agency) to solve the Korean nuclear issue, to give full play to Russia's role in the Asia-Pacific region.

### **II. The Question of Asia-Pacific Regional Security Mechanisms**

In view of the strategic concept of the various countries in the Asia-Pacific region establishing a collective security mechanism, the fact that the issues focused on are not at all similar, and in each case the regional situation and gain and loss relationship for relevant countries differ, the Asia-Pacific region must form security mechanisms possessing Asia-Pacific characteristics.

#### **A. The Characteristics of Asia-Pacific Regional Security Mechanisms**

**1. Asia-Pacific security mechanisms cannot indiscriminately imitate the model of European security.** Because the

political systems, historical traditions, and cultural backgrounds of the various countries of the region are different, and the level of economic development is not uniform, economic cooperation will be difficult to develop in a manner similar to the European Community, and Asia-Pacific security mechanisms then cannot indiscriminately copy the European model. During the Cold War, the Soviet Union peddled an "Asian Security System" which above all admittedly was because it "wanted to replace the power of United States and become the leader of an Asian alliance." This idea met the resistance of Asian countries, which was also due to the fact that the Soviet Union had not considered the above described complexities of the Asian region and this in the end led to the plan's failure.

2. Asia-Pacific security mechanisms must develop gradually, first, subregionally, and then covering the whole region. The security issues faced by Southeast Asia and Northeast Asia are different, hence each region must first concentrate on resolving its own problems, and can first establish subregional security mechanisms.

3. Combining bilateral and multilateral dialogues. The Asia-Pacific region originally had bilateral military alliances, such as the U.S.-Japan, U.S.-South Korea, U.S.-Philippines, U.S.-Thailand, and U.S.-Australia military alliances. Starting last year, the United States changed its Asia-Pacific strategy, and on a bilateral basis is participating in multilateral security dialogues. At the same time as this, in the wake of the developing situation, bilateral security dialogues between various countries are springing up. U.S.-Russia, China-Russia, China-Japan, and China and each member of ASEAN are one by one opening bilateral security dialogues. This bilateral basis, and an approach combining bilateral and multilateral security dialogues is also a characteristic of the diversification of Asia-Pacific regional security mechanisms, and it is beneficial to the promotion of the stable development of Asia-Pacific regional security mechanisms.

In accordance with these circumstances, estimating that from now on the Asia-Pacific region will form regional security mechanisms with Asia-Pacific characteristics, it is possible to have multilayered, multichannel, diversified security dialogue mechanisms, both bilateral and multilateral, subregional and encompassing the whole region, nongovernmental and governmental, official and nonofficial, and those having no fixed period and with a fixed period, varied forms which at the same time develop simultaneously as one type of mechanism. This is a long-term, slowly developing process, and one cannot be overly impatient for quick results. As the Malaysian Strategic and International Issues Research Institute head Subi once pointed out, establishing Asia-Pacific regional security mechanisms is a very complex issue, and as for international relations in the post-Cold War era, it is not possible to have a simple solution. When a regional security mechanism is established, it should involve a new mode of thinking, and should consider a number of possible plans. This process must start from the reality of the Asia-Pacific region and establish security mechanisms suitable to this region.

#### **B. Several Types of Security Mechanism Currently Being Formed in the Asia-Pacific Region**

1. The ASEAN Regional Forum (ARF) is the first regional security dialogue mechanism to come into being in the Asia-Pacific region. In July of this year, the ARF convened its first meeting in Bangkok. This has taken the Asia-Pacific multilateral security dialogue from the fermenting stage to the stage of reality. It is the first intergovernmental multilateral dialogue mechanism in the Asia-Pacific region. The background on the proposal by the ASEAN countries to establish this "forum" is as follows: First, the ASEAN Regional Forum is an extension by ASEAN of the "cooperative security" concept and is based on peace, freedom, and neutrality. Following the disintegration of the two superpower model, ASEAN was worried about the emergence of a "power vacuum," and in 1993 proposed establishing, on the basis of the ASEAN foreign ministers expanded meeting, the ASEAN Regional Forum, and to seek the participation of the great powers, in order to maintain the regional balance of power. Second, after the basic political solution of the question of Cambodia, the ASEAN countries expanded their field of vision on security issues, and have concentrated on key points starting from Indochina and expanding to the whole of Southeast Asia, and the Asia-Pacific region. Third, ASEAN has used the favorable conditions caused by the fact that any great power that came forward would be under the suspicions and resistance of other countries, to personally preside over a multilateral dialogue, in order to raise its own position, and balance the power of the larger country. Of course, great powers such as the United States and Japan, in readjusting their Asia-Pacific policies, have competed in striving to use the ARF as a stage to bring their own influence to bear. Participants in the ARF are the six ASEAN countries (the Philippines, Malaysia, Thailand, Singapore, Brunei, and Indonesia), and seven dialogue partner countries (the United States, Japan, South Korea, Canada, Australia, New Zealand, and the European Community), two consulting partner countries (China, Russia), and three ASEAN observer member countries (Vietnam, Laos, and Papua New Guinea), an 18-party conference. The most important thing about the ARF's first meeting was its successful convening, which is related to whether or not it will have a healthy operation assisted by the laying of a good foundation. The ARF belongs to the "forum" type dialogue mechanism, and it is primarily an exchange of views, an arena for furthering mutual understanding, and hence it is not an international conference for making agreements having a binding force. Each country only adheres to a spirit of peaceful coexistence, mutual respect, and seeking common ground while reserving differences, in handling a variety of complex issues, and is able to alleviate contradictions, and promote trust and strengthen cooperation.

Looking at its development, the ASEAN Regional Forum has the ability to expand, with such countries as North Korea, Mongolia, India, and Pakistan also seeking entry. But looking at the present situation, ASEAN is still not eager to expand. This is because ASEAN is first concerned



with security issues associated with the Southeast Asia region itself. Second, ASEAN is still concerned that the entry of countries such as North Korea and India will bring in the problems of the dispute on the Korean peninsula and the India-Pakistan conflict, with the result that the situation would become even more complex, and it would be unable to resolve these issues. This could result in the premature death of the organization. The United States also hopes that the "forum" does not develop too quickly, so that it does not deviate from its anticipated track. It appears that the ARF must first stand firmly on its own two feet. Only by making each participating country (party) feel like it has something to gain from the establishment of the forum, and its operation and development, will it be possible to make the forum gradually fully play a positive role.

**2. Northeast Asia security mechanism issues have the possibility to be placed on the agenda.** Russian President Yeltsin in November 1992 proposed the convening of a "Northeast Asia Multilateral Consultative Conference" with the participation of the six countries of North and South Korea, Japan, the United States, China, and Russia, as a first step to the establishment of a pan-Asia-Pacific collective security mechanism. The United States recently also proposed the creation of a new "forum" for Northeast Asia. U.S. scholars have also put forward concrete tentative plans, considering that each "Northeast Asia Forum" meeting could feature the participation of an ASEAN representative, and like the annual ASEAN foreign ministers expanded meeting could also have a representative of the European Community participate. South Korea has also advocated the establishment of a "Northeast Asia security mechanism," considering that the ARF cannot resolve security issues related to the Korean peninsula, and therefore there is a need to establish a "Northeast Asia forum" to "mutually assist" the ARF. At present it seems that because each party's ideas are different, and the situation on the Korean peninsula has still not been resolved, the establishment of a Northeast Asian security mechanism will be very difficult, and it cannot be accomplished in one step.

On the issues of the establishment of an Asia-Pacific security mechanism, there are also some other plans and forms. For example: In November 1992, an Asia-Pacific Security Cooperation Symposium was jointly convened in Seoul by the ASEAN Strategic and International Issues Research Institute, the U.S. Pacific Forum, and the South Korean Seoul International Affairs Forum. In June 1993, the Council for Security Cooperation in the Asia-Pacific (CSCAP) was officially established in Kuala Lumpur. This is a nongovernmental organization for discussing Asia-Pacific security issues, but it could attract the participation of relevant government officials in a private capacity. Because of the issue of the participation of Taiwan, China has not yet entered. In sum, the establishment of Asia-Pacific security mechanisms has a regional character, and what will emerge are various patterns that will be multi-layered, multi-channeled, and diversified. Among these

some will be able to have a definite effect, and some will not be able to have much impact.

### III. China Working Actively and Hard for Asia-Pacific Security

In recent years, China has made unremitting efforts to maintain the peace and stability of the Asia-Pacific region and, in terms of security cooperation, has played an active part. On security issues China has continuously strengthened bilateral contacts and dialogue with relevant countries, and increased mutual understanding and trust, while reducing misunderstandings and suspicions between it and various countries. At present, China has opened a dialogue on security and measures for establishing trust with such countries as Russian, Japan, and India, and strengthened exchanges of visits with the military leadership of various countries of Southeast Asia and mutual contacts between armed forces.

**1. On the purpose of military contacts established by China.** China's military power is completely used for self-defense, and the strengthening of modernization work of the armed forces is directed towards defending the country's territory and keeping its sovereignty intact, and ensuring the smooth conduct of China's industrial modernization. China's national defense strategy is oriented towards defense, and its air power is basically a defensive force, the navy does not have large-scale destroyers and guided missile destroyers, and also does not have aircraft carriers. China's air transport and sea transport capabilities are limited. China has very long borderlines, coast lines and a vast sea area, but China's armed forces' weaponry is unduly outmoded, and its military power is far far from being able to satisfy the requirements of defense, and it is appropriate that the armed forces should concentrate on improving military technology and equipment. In recent years, though the amount of China's military outlays has increased, as a ratio of the gross national product it has steadily declined, from 2.2 percent in 1985, to 1.5 percent in 1993, and on a per capita basis is only \$6, very small in comparison to many countries in the world, and even less in contrast to some great powers. Of the new increases in national defense spending, a large part goes to maintain and appropriately improve the living conditions of military personnel, including raising wages, and subsidies, and there is little new money for spending on weapons. For this reason, those persons internationally who have created the "China as a threat theory" have created an utterly groundless theory, and are operating with ulterior motives.

**2. On the issue of the Nansha [Spratly] Islands.** The Spratly Islands have from ancient times been Chinese territory, and China has indisputable sovereignty over the Spratlys and the adjacent sea region. China will not allow foreign encroachment on China's territory and will preserve China's sovereignty intact, but in order to achieve peace and stability in the Asia-Pacific region and the world, China is willing to adhere to a policy of "laying aside disputes, and pursuing joint exploitation" [of mineral resources] in order to alleviate contradictions, and eliminate hot spots. We believe that "joint exploitation" is the

only way to bring joint benefits to each side, and is not sacrificing the interests of a particular side for the benefits of another party. China opposes the internationalization of the Spratly issue, and also does not approve of a discussion of this issue in the ASEAN Regional Forum, because internationalization would only make the issue more complex, and heighten the contradictions. China is willing to actively be patient with the relevant countries, and conscientiously engage in bilateral discussions or consultations. We believe that this approach will be more beneficial to the peaceful solution of the dispute.

**3. On the issue of the Korean peninsula.** China approves of the denuclearization of the Korean peninsula and the long-term maintenance of peace and stability. On the issue of nuclear inspections in North Korea, China has consistently advocated handling the situation through discussions, negotiations, and dialogue, and has opposed exerting pressure and sanctions. Facts have proven that the latter method not only has not helped in resolving the problem, but has also rapidly worsened the situation. We eagerly look forward to the summit conference between the leaders of North and South Korea, meetings between North Korea and the United States, and North Korean Japanese discussions, hoping they will be able to achieve results, and hence promote the peace and stability of the whole Korean peninsula and Northeast Asia.

**4. On the issue of Asia-Pacific security mechanisms.** China approves the conduct of bilateral and a regional multilayered, and multichannel dialogue on Asia-Pacific security issues. The core task of the various countries of the Asia-Pacific region is the development of their economies,

and the establishment of Asia-Pacific security mechanisms should create a peaceful environment that benefits each country and the region's economic development, and does not interfere or obstruct this development. Regional security has a broader implication, and should look to the stability of the whole region, and not be limited to a certain prominent specific and concrete issue; it should insist on the principles of equality and mutual benefit, and mutual non-interference, and prevent the use of regional security as an excuse for interference in another country's internal affairs, destroying the internal stability of another country. The establishment of a regional security mechanism is directed towards development through a regional security dialogue, a mutual exchange of circumstances and views, and enhancing mutual understanding among the countries of the Asia-Pacific region, to create a favorable and tolerant atmosphere. Such a mechanism should not allow a certain country, a certain region, or a certain issue, to take action that resolves a problem by forcing views on others, or adopts actions that lead to the an increase in a tense situation.

In sum, China in adhering to the five principles of peaceful coexistence, is actively opening bilateral and multilateral dialogues with the various countries of the Asia-Pacific region, and is actively participating with the Asia-Pacific region in the process of the establishment of security mechanisms. Through "dialogue and cooperation," China is consolidating and developing its political relations and economic and trade relations with the countries of the region, while maintaining the momentum of the sustained development of the economy of the Asia-Pacific region, and safeguarding the peace and stability of the region.



**Publications Should Not Pander to Market**

94CM0397A Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese 15 Jun 94 pp 10-11

[Article by Zhu Mingzuo (2612 6900 0146), affiliated with the YANGZI WANBAO: "Clearing Up the Misunderstanding That Publications Should Be 'Market-Oriented'"]

[Text] The "publishing fever" that has appeared in recent years along with our socialist market economy is suited to the needs of a market economy and has been driving our market economy development. But while confirming its positive significance, we also need to realize that this "publishing fever" has brought unavoidable negative side effects. Our publications are unique in that, on one hand, this "publishing fever" has arisen during our stage of changing tracks from a planned to a market economy, with our former planned economy conventions being overturned, while new laws and regulations remain very unsound. On the other hand, as markets have weaknesses and limitations per se, these negative side effects are bound to be reflected in this "publishing fever."

Newspapers, as an important media tool, on market economy terms, must adhere to the party principle of socialist news propaganda, endeavoring to overcome the negative side effects of the "publishing fever," and absolutely not taking the arrival of a market economy as grounds for playing down the party principle on socialist journalism. We know that journalism in any country is subject to the standards and service to not only the economic system, but also the political system. This is because journalism reflects the economic foundation through press means, belonging to the ideological superstructure. And, as politics is a concentrated expression of economics, a key means of achieving economic objectives, and the dominant part of the superstructure, it has a significant impact on journalism. So, when considering the relations between a market economy and journalism today, we absolutely must not overlook the fact that the kind of market economy that we are building is a socialist one. Socialist journalism built on a socialist market economy foundation differs in principle from capitalist journalism built on a capitalist market economy foundation. Chinese journalism remains an organic part of our overall socialist cause led by the party, still needing to conscientiously submit to party leadership politically, ideologically, and organizationally. Both party and non-party publications need to be realistic, keeping ties with the masses and, through journalistic activities, doing a good job of serving as the eyes, ears, and mouthpieces of the party, the government, and the people, serving the people and socialism. This is the difference between Chinese journalism and capitalist journalism, as well as our party's principle on socialist news propaganda.

**I. We Must Reject the Idea That the Only Purpose of Publications Is To Make Money, Establishing a Firm Sense That Their Social Impact Is Dominant**

On market economy terms, all face the pressures of competition. While there is no doubt that publications need to emphasize economic efficiency and make money, this is only one aspect of the matter. Another is that, because journalists shoulder a heavy social responsibility, they absolutely must not forget their social impact when emphasizing economic efficiency. Social impact and economic efficiency can stand in only a coexisting relationship, absolutely not a parallel one. The social impact is always dominant, with economic efficiency subordinate to and in the service of the social impact. This is another point on which publications, as intellectual products, differ somewhat from other material products. I once asked someone who was just applying to run a newspaper why he was so enthusiastic about it. To which he replied: "This is a money-making line. As long as we print 20,000-30,000 copies, the money we earn from advertisements will support our employees. Moreover, we can publish anywhere and make a living at it." This is obviously the idea that the purpose of publications is to make money. It is precisely guided by such thinking that some publications, after acquiring a publications name, focus their energies not on running the publication, but rather on making money, either violating their publishing purpose by selling their space to enterprises for public ads, or flaunting their publication's banner, while engaging in lines they consider profitable. This is one of the expressions of the "publishing fever" not having put the relations between economic efficiency and social impact in the proper order.

Point two: To expand their publications and make more money, some publications are often market-oriented, pandering to the tastes of some readers that are certainly not high ones. Some have summed up this problem as being due to "stars" (singers and movie stars), "sex" (pornography and obscenity), and "blood-lust" (violence and murder). Others have imputed problems in this area to "red secrets," or the disclosure of party and state secrets to attract readers; "the allure of gold," or pandering to the "happily-getting-rich" mindset of some, by reporting how music stars have "escaped from the den" [of paying taxes], how technicians have "jumped the groove" [into the world of business], and the rise to fame and fortune of the "big spenders" and the "heavy-handed"; "the yellow [pornographic] stimulus," or reports of coarse sex, such as rape and extramarital affairs; "the black depression," or society's seamy side of murder and arson.

Point three: To expand their influence and achieve fame and economic efficiency, some publications go in for sensation. In this area, fabricated and novelty coverage often gains fame. What is unbelievable is that some publications actually advocate the belief and logic that "while we may not leave a good reputation, we will still go down in history for our infamy," saying things, such as "unless we make mistakes and are criticized, our publications will not become famous; but making mistakes and

being criticized attracts more readers instead." Just think, as to publications with such ideological guidance, except for going all out to make money, what other social impact could they possibly have?

## **II. We Must Overcome the "Market-Oriented" Misunderstanding, Upholding the Authority of Party Publications**

That publications should be market-oriented is a misconception. As markets respond mainly to public demand in the area of publishing volume, markets per se are unable to judge whether such demand itself is positive and healthy. In addition, publications as intellectual products, particularly party publications as the party's mouthpieces, shoulder the key mission of propaganda and indoctrination, and so should be even less market-oriented. Being market-oriented is actually putting money in first place, which violates the first rule of social impact, leaving the authority of party publications deemphasized.

To be sure, a market economy is a new problem for party publications. Party publications must not only strive to survive and grow in the midst of sharp competition, but also must endeavor through competition to consolidate their authority. In other words, while propaganda by party publications in a market economy faces a problem of how to adapt, all the way from adjustment of substance to arrangement of space, such adaptation and change absolutely must not weaken propaganda on the party's line, principles, and policies, with the authority of party publications being precisely to give such propaganda a better impact. Party publications need to study the implementation of the party's line, principles, and policies and the ideological and work realities of leading cadres at all levels, providing directed propaganda reports, and daring to explore the new conditions and issues presented by a market economy, to find the best "growing points" for party principles and policies. It is only by being more discerning and persuasive than other publications in this area that they can express the authority that cannot be replaced by other publications.

## **III. We Need To Eliminate Unfair Competition, Observing the Rules of a Uniform Market**

While the rules of market competition should be openness and equality, our still very unsound socialist market economy means that the competition that occurs in this "publishing fever" is often unfair.

First, unfairness created by the flaws in our existing system. Most Chinese publications are now "institutions that practice business management." Their offices practice "independent accounting, sole responsibility for both profits and losses, and tax payments according to law," with the state essentially providing them with little or no fiscal subsidies. On these terms, the better-run ones must pay taxes according to law in line with their "business management"; while the poorly run ones, which seem to be losers, can still continue to receive subsidies as "institutions." In particular, certain department-run "small official party or government publications" and county-level

publications, due to poor quality and low circulation, are largely dependent on fiscal appropriations to survive. This gives rise to two abnormal phenomena: Well-run units are hard-pressed by market competition; and, on the other hand, poorly run ones continue to "eat out of the one big pot," with little pressure being put on them.

Second, unfairness caused by discrepancies in the implementation of publishing principles. All publications should emphasize both economic efficiency and social impact, giving first place to social impact. The many party publications, or publications with publishing experience, have always observed this principle. But certain new publications, or those that place profit-making first, often disregard their social impact, proceeding from economic efficiency alone. And as long as they can attract readers and make money, all sorts of low-style and sensational news can be found in them.

Third, unfairness due to the monopoly on news sources. While "the race for news" is of course a normal phenomenon in journalistic competition, some areas have turned it into a press monopoly. Some publishing offices suggest to local leading departments that "local news must be allowed to be used first by local publications, so must be kept secret from higher level press units"; others stipulate that reporters must give important news to them alone. Impacted by this, certain units that supply or release news make certain irrational regulations.

Fourth, unfairness created by improper publishing means. In theory, publishing competition should proceed from raising publications quality and serving and conveniencing readers, letting readers make their own choices voluntarily and freely. But this is certainly not the reality. Some system-run publications, through their superior or responsible departments, assign [subscription] tasks to their subordinate units level by level, practicing coerced subscription. Others even act out of local protectionism, saying things, such as "this is our own publication, so we need to first ensure that we have enough subscriptions," with the unspoken implication being to exclude other publications. And yet others pay high commissions to their participating distributors, soliciting subscriptions with enormous rewards, even to the point of bribing distributors with cash and practicing fraud by altering subscription order forms. Such improper competition causes two strange phenomena: 1) Among publications that are subscribed to at public expense, due to limited funding, it is often the case that one is ensured at the expense of another. Many localities first ensure subscriptions to their own publications, negatively impacting the distribution of better-run higher-level publications. 2) In certain areas, publication quality does not stand in a direct ratio to publication circulation, as better operation does not necessarily mean larger circulation, nor does poorer operation necessarily mean smaller circulation.

So to eliminate the unfair competition in this "publishing fever," to put our publishing business onto a healthy track of development, we need to observe the rules of a uniform market.

#### **IV. We Must Tighten Our Macroeconomic Regulation and Control, Paying Attention to the Development of Party Publications**

We need to correctly understand the features of intellectual products, to make our publications mix more rational. As intellectual products, publications are subject not only to socioeconomic conditions, but also largely to the limitations of literacy and the quality of the public culture. Their demands are more complex and diversified than that of material production, with their public understanding and evaluation not as close or unanimous as that of material products. In analyzing and dealing with these problems in our current "publishing fever," we must not, as we did for a time under our planned economy, have only party publications, while basically abolishing others; nor must we, as some say, let things slide and develop into free competition; and we must even less so, as in dealing with material products, make profit our major objective. Rather, we need to use macroeconomic regulation and control means suited to socialist market economy conditions, promoting the rational growth of all types of publications, such as Party organs, industrial publications, and evening papers, to gradually establish a reasonable publications mix suited to our socialist market economy.

In the current "publishing fever," many places want to publish evening papers. One provincial capital even saw the appearance all at once of three publications with the thinking and style of evening papers. The pertinent examination and approval departments should not in future be so "accommodating" to every "request," rather granting protection and support to the development of party publications. In recent years, some places have been requiring that "party and government organs must subscribe to party publications," "in unit subscription costs, subscriptions to party publications must be ensured first," and "party membership dues can be used for subscriptions to party publications," which are certainly correct and essential.

We need to raise the legal awareness about journalism, ensuring that the publishing business operates normally. While China has not yet put a press law into effect, certain

of our other legislation is basically applicable to press operations on standard market economy terms. For instance, while our "Product Quality Law" is directed at material products, it is fully capable of playing a reference role for the production of intellectual products. This law provides that when producers violate their obligation to ensure product quality, producing fake and shoddy products or engaging in illegal acts that intentionally cheat the public, they must assume the legal liability; for those that constitute crimes, the criminal liability will be investigated and affixed in accordance with law. As news is an intellectual product, assuming the key mission of publicity and education, and playing a key guiding role in the thinking of not only the press but also the public, its quality needs even more oversight and control according to law. Taking another example, our "Law Against Improper Competition" provides that "operators may not use property or other means as bribes, in the sale or purchase of commodities," and "the practice of lottery-attached sales in lottery form is prohibited." These requirements also have reference value for publications.

In addition, as to the "press lawsuits" of recent years, some have been cases of public complaints that news units have infringed on portraiture or reputation rights, while others have been cases of journalistic coverage activities meeting with unreasonable interference, abuse, or even personal rights infringements. These all need handled according to law.

We need to make "economic efficiency and social impact" our criteria for publications excellence. The phenomenon that "publications can start up but not close down" has added fire to the flames of our steadily warming up "publishing fever." This makes it very hard for our publishing business per se to form a climate of excellence with growth forces for the new to supersede the old. If this goes on, we will see publications growing only in number but not necessarily improving overall in quality. As such growth is not genuine publishing prosperity, it seems that premised on insisting on both economic efficiency and social impact, fair competition to produce excellence is particularly crucial.



## National Affairs, Policy

### Officials Speak on Economic Reforms for 1994

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[Resume of speeches by high-ranking officials: "What Tasks Will Have To Be Performed This Year in China's Economic Reform"]

[Text] The State Commission for Restructuring the Economy and the GUOJI XIANQU LUNTAN BAO [INTERNATIONAL PIONEERING FORUM] had jointly organized a 1994 Beijing forum of high-ranking officials in charge of international economic affairs, bringing together for the first time in China an economic forum at the highest level. Top officials of the State Council and of various relevant departments of the government spoke at the forum, reporting on the present state of China's economic reform. In the following we reproduce, for the benefit of our readers, the gist of their speeches on this year's economic reform.

#### Primary Tasks During 1994 in China's Reform of the Economic Structure

By Li Tieying, State Counselor and Minister in Charge of the State Commission on Restructuring the Economy

1. The year 1994 is a crucial year for the overall advancement of the reform of China's economic structure and for breakthroughs at key points.

Fundamental policies in all work to be performed this year are: Seizing the great opportunity to advance the reform, opening up wider to the outside world, promoting development, and maintaining stability. The primary tasks of reform are: Transforming the methods of business operations in state-owned enterprises, exploring effective ways to establish a modern enterprise system, accelerating the structural reform of macroeconomic control, and, while the mentioned tasks remain central concern, also to promote, in coordinated action, the reform in other areas. This year, with the national economy in high gear, we shall promote a comprehensive reform of the whole system, and during the total shift from the old to the new economic structure we shall also ensure the steady, rapid, and healthy development of the national economy. At present, we shall in real earnest strengthen and perfect macroeconomic regulation and control, control currency inflation, and correctly and effectively handle the relationship between reform, development, and stability, so as to ensure the smooth progress of the reform.

#### 2. Enterprise reform

This year, the State Council will select about 100 state-owned large- and medium-sized enterprises and set them up as test cases of modern enterprise systems, to explore effective ways of establishing modern enterprise systems. Small-sized state-owned enterprises shall be transformed by leasing them out, contracting them out, or by selling

them. Enterprises that have been unprofitable and insolvent for long periods of time shall be subjected to bankruptcy procedures according to law. In the case of the majority of state-owned enterprises, we shall continue to transform their methods of business operations and gradually resolve the problem of their historical burdens, so as to create favorable preconditions for the establishment of a modern enterprise system. Urban collective enterprises, rural enterprises, privately run high-tech enterprises could be transformed into shareholding cooperative systems, and, where warranted, also transformed into stock companies. Privately run enterprises shall also be encouraged to transform themselves into standardized companies.

3. Effective reform of the public finance, taxation, banking, planning, and investment systems; substantial progress in the establishment of a modern system of macroeconomic regulation and control

—The major content of the reform in the public finance system is the change from the current system of complete assignment of the entire task to local finance to the new system of rationally dividing taxes, based on actual authority of central and local governments in matters concerned, establishing central and local tax revenue systems, and at the same time instituting financial pay-backs from the central to the local governments. We shall undertake intensive studies of a standardized system of transferring fiscal income and expenditures from the central to the local authorities, to effectively prepare for an even more perfect system of public finance in future.

—Instituting a circulating tax system with added-value tax as its core, and, along with a reduction of income tax rates for state-owned enterprises, straightening out the distribution relations between the state and the state-owned enterprises. Unifying the income tax on domestically financed enterprises, instituting a unified personal income tax, expanding the scope of revenue from the resources tax, and setting up a sound system of land taxes (dues) and property taxes.

—The key points of the reform of the banking system are: Instituting a system of macro-regulation and control by a central bank, which is to carry out an independent currency policy under the guidance of the State Council, perfecting and enhancing the functions of the central bank, maintaining currency stability, setting up a bank for state-policy-related transactions, gradually instituting a separation of state-policy-related activities and commercial business activities, and having the state's specialized banks become state-owned commercial banks.

—Intensified reform in plan format, changing the functions of plan management. Increasing the macroeconomic character, strategic character, and policy character of the plan content, simplifying the annual plans, and, with long-term and medium-term planning as key points, reducing the targets of mandatory planning. Setting up a mechanism to restrain investments,



increase risk responsibility of investment subjects and of bank credits, perfecting the macroeconomic regulation and control of the scope and structure of investments, and standardizing formation of investment policy.

4. Perfecting the market system, with the development of markets for key elements of production as key concern, continuing to promote price reform

We shall continue to develop commodity markets, and as a key concern develop markets for key elements of production, such as capital, land, and labor services. We shall firmly take in hand the initiation of market rules, standardize actions of market subjects, enhance market order, promote the earliest possible formation of a unified, open, competitive, and orderly market system. We shall further promote price reform, and as soon as possible merge onto one track the two-track prices for all means of production.

5. Accelerating the establishment of a social security system and accelerating the reform of the housing system

As a key concern we intend to advance and perfect the reform of the system of old-age care and medical insurance for urban staff and workers in such a way that the units and the persons themselves jointly contribute to an old-age pension and medical insurance fund, as an integration of overall arrangements by society with individual accounts of the persons involved. We shall accelerate reform of the housing system, promoting overall a system of a public accumulation fund for housing, and shall energetically develop economical and serviceable housing.

6. Promoting reform of the foreign trade system, wider opening up to the outside world

We are intent on implementing business autonomy for foreign trade enterprises, and to develop foreign-trade-oriented enterprise groups, as demanded by the modern enterprise system. We shall further advance the reform of the import control system, strengthen the coordinating role of chambers of commerce, and gradually establish a system of open tenders and sale by auction of quotas and licenses. We shall gradually have the large- and medium-sized enterprises, if possessing the necessary qualifications, and also all science and technology enterprises, as well as enterprises of the circulation system enjoy the privilege of engaging in foreign trade.

7. Accelerating the establishment of an economic legal system

We shall continue to produce further laws, such as a law on securities, a law on budgeting, a labor law, a law governing foreign trade, a law governing the central bank, a law governing commercial banks, a law governing negotiable instruments, an insurance law, a law governing the trade in futures, and a social security law. Areas for which legislation is not yet suited shall have appropriate administrative rules and regulations formulated.

### Thoughts on the Enterprise Reform

By Wang Zhongyu, minister in charge, the State Commission on Economy and Trade

This year, the primary tasks in the enterprise reform are: Accelerating the transformation in the methods of management of large- and medium-sized state-owned enterprises, setting up test cases of modern enterprise systems, exploring ways and methods to further revitalize the large- and medium-sized state-owned enterprises. The line of thought in adopting these reforms are: Enhancing the entire system, achieving breakthroughs at key points, and forming a complete and comprehensive system.

Enhancing the entire system, i.e. continuing the transformation of managerial methods in enterprises, having the various powers and responsibilities of the enterprises become reality; continued deepening of the reform of the labor and personnel system, and also of the distribution system in enterprises, perfecting the internal mechanisms, and strengthening enterprise vitality; implementing the "Regulations on Supervision and Administration of State-Owned Assets," establishing a supervisory and administrative system for state-owned assets, substantially improving the administration of state-owned assets, and ensuring preservation of the value and increases in the value of state-owned assets.

Achieving breakthroughs at key points, means, from the standpoint of the work performed at the State Commission for Economics and Trade, implementing the "plan for shifting mechanism and setting up groups of ten thousands, thousands, hundreds, and tens," to resolve the present difficulties and key problems that are adversely affecting enterprise reform and enhancement of enterprise vitality. It means selecting 10,000 state-owned enterprises for an appraisal of their fixed assets and circulating funds and clarifying their base figures; in the case of one thousand state-owned enterprises, setting up supervisory committees for state-owned assets; in the case of somewhat over one hundred state-owned enterprises, setting them up as test cases of a modern enterprise system; for 10-odd cities, setting up breakthrough test cases at key points, such as enterprise bankruptcy test cases, resolving the "enterprise running society" question; lightening the irrational historical indebtedness of enterprises and the burden of their responsibility for social security.

Forming a complete and comprehensive system, i.e. reforming the managerial system of enterprises and improving inner management; accelerating the readjustment of the organizational structure of enterprises; increasing investments in technological transformations, accelerating technological transformations, and raising technological quality; firmly taking in hand formulation of laws and regulations supplementing the "Company Law."

In view of the realities of the situation in China, instituting the company system for state-owned enterprises is a beneficial exploratory move toward establishment of a modern enterprise system. Through the setting up of test cases of limited liability companies and companies limited

by shares in recent years, we have already become well-aware of the advantages of enterprises on the corporate system. However, contradictions that have emerged in these test cases also tell us that instituting the corporate system results in additional operational difficulties; one must not rush headlong into mass action here. We must lay out things overall, must definitely not transform all enterprises into companies, but rather gradually promote the transformation in an absolutely safe manner. It is for this reason that we must first set up test cases of modern enterprise systems in some large- and medium-sized state-owned enterprises, and must at the same time standardize the existing limited liability companies and companies limited by shares, as demanded in the company law.

#### **Main Content of the Reform of the Investment Structure**

By Gui Shiyong, vice minister, State Planning Commission

Intensified reform of planning and investment is an important organic component of our effort to establish the system of socialist market economy with Chinese characteristics. It will also be important assurance that China's population will achieve a relatively well-off standard of living by the end of this century, and that China will essentially achieve its modernization by the middle of the next century.

The following are the main points of concern in the reform of the investment system:

- Improving the risk-restraining mechanism in investments, establishing risk responsibility for investments by legal persons and for bank credits. In construction projects, there has to be first clarification of the legal person as responsible subject, and only then determination of the details of the project. For overall planning, raising of capital funds, execution of construction, and everything up to production and business operations, during this whole process the enterprise as legal person is responsible, also responsible for repaying capital and interests of loans and bonds, and for the preservation of value and increase in value of the assets, as it will also bear all investment risks. At the same time, the bank must bear the risks of any loans granted, and in applying for loans from the bank, the enterprise will have to make a "two-way choice."
- Reforming the pattern of financial investments. In the case of allowing an enterprise to take on a competitive construction project, for which investment returns are comparatively high and which is comparatively sensitive to market regulation, the enterprise should have full decision-making powers and should itself bear all risks. Funds, furthermore, should be raised through the market, primarily from commercial banks. Gradually, a project registration system shall replace the current system of administrative examination and approval. The government shall gradually withdraw from all investments in this type of projects. Items of the infrastructure with extended periods of construction and some basic industries, which require large investments,

which, though of evident benefit to society, would yield limited profits for enterprises to undertake, but which, on the other hand, are quite necessary to be undertaken, and also pivotal industries which directly increase national strength and which conform to the scale of economic development, most of these fall within the scope of state-policy-related financial investments. The government shall concentrate necessary financial and material resources and effect investment through an economic entity, and also widely attract investments through local and enterprise participation in the investment; it should encourage investments mainly by large mainstay enterprises. In some cases it will also be possible to attract direct investments by foreign firms. For projects in the fields of science, education, culture, and public health, arrangement shall mainly be made by the government through fiscal allocations.

- Improving the macro-regulation and control of the total amount of investments and the investment structure. The key point here is effective control and regulation of the source of the funds. Beyond that, it is also necessary to set up an industrial policy system, guiding the direction of the investments and a system for investment information feedback. It is also necessary to establish a sound system of reporting for official records all construction projects, a system of registration of work about to be undertaken, and also to make comprehensive use of such economic methods as finance, taxation, monetary means, and prices, economic laws and regulations, plan guidance, and necessary administrative measures in order to effect macro-guidance, regulation, and control of all investment activities.
- Setting up a system of financing in service to central government policy, organizing a state development bank; these reform measures have already been initiated earlier this year. The state development bank is an economic entity with the status of an independent legal person which acts in particular as the banking organ for policy-directed activities. It conducts independent accounting, has autonomy in business operations, bears all risks itself, and combines responsibility with authority. After establishment of the state development bank, the State Planning Commission will pay particular attention to macro-regulation and control of the scope and structure of fixed asset investments, as also to decisions on major construction projects. Depending on its ability to raise capital and the actual condition of the projects, the state development bank shall be responsible for the specific fund allocation.
- Accelerating development of a market organization to serve investments in construction and strengthening legislative work. We must set up market systems for such areas as engineering consultation, engineering design, engineering construction, engineering audit, and engineering supervision and management, ready to serve enterprises and legal persons. At the same time, we must formulate relevant laws and regulations, to ensure that investments will proceed in an orderly manner.

### Problems in Connection With the Reform of Public Finance and Taxation

By Liu Zhongli, Minister of Finance

Generally speaking, conditions during the first four months after the reform of the public finance and taxation structure have been satisfactory. Operations of the new system have essentially been normal, and no big problems have arisen. First, while neither commodity prices nor wages had been frozen, the reform of the taxation system has not caused large fluctuations in commodity prices nor any large-scale inflation. Second, the reform of public finance and taxation has had no adverse effect on production and circulation, and industrial production has maintained its rapid development. During January to March, output value of town and higher ranking industry throughout the country had been 882.142 billion yuan, an increase of 18.6 percent over the corresponding period of last year. Third, there was only a calm reaction among all sectors of society and among most enterprises to the changes in tax burdens after initiation of the new taxation system, and especially among foreign firms with investments in China misgivings have been gradually dispelled; the use of foreign capital continues to maintain an upward tendency. During January to March, a total of 11,834 projects with direct foreign investments have been approved, at a contracted amount of \$19.6 billion, of which \$5.429 billion have actually been paid up as investments by foreign firms. Fourth, central and local government revenue is continuously increasing, and financial capital management at all levels of the fiscal administration is fairly normal. Up to the end of March, fiscal receipts throughout the country had been 18.6 percent of the budgeted figure, an increase of 21.4 percent over the corresponding period last year. Fiscal expenditure has been 14.9 percent of the budgeted figure, which is 23.8 percent over the figure for the corresponding period last year. The balance of revenue over expenditure is also larger than during the corresponding period of last year. Particularly noteworthy is the fact that in the course of time all sections of society are gradually becoming quite familiar with the new public finance and taxation system, and some fuzzy ideas and misgivings of the past are being reduced. The reform has received widest endorsement and support. A reform of such dimensions will, of course, not be without problems, however, those that have so far arisen have been promptly and appropriately adjusted and disposed of. In sum, we are fully justified in saying that our plan for the reform of public finance had been correct, that its implementation was effective, and that we are absolutely confident the anticipated results of the reform will be achieved.

Some friends may not yet fully understand and ask why it is that although the present reform of public finance and taxation has so many advantages, and although its implementation has essentially been satisfactory, the Chinese Government still had to borrow over 100 billion yuan during the very year of implementation of the reform? It is right, seen from the standpoint of development, the

present reform of public finance and taxation is bound to engender positive effects for the operational mechanism of the Chinese economy and for the fundamental resolution of fiscal difficulties. However, as I have already said, expecting solution of all problems in one night would be haste without results, which, in turn, would lead to more problems. In the present reform we have therefore not thrown the whole burden on to the local governments and the enterprises, but rather first of all set up a mechanism that would be able to resolve the problems radically, and we shall only later in slow adjustments gradually achieve our objectives. Contrarily, to allow everyone somewhat more liberal conditions during the early period of the reform, public finance did have to pay a certain price.

During the first stage, some foreign press reports said that we resolve the financial difficulties of the central government by increasing the tax burden of the enterprises and by higher authority taking over financial resources of the local authorities. These allegations are groundless. If the central authorities have gained some financial resources from the local authorities in the present reform of public finance and taxation, not one penny was gained by taking away from the local authorities, it was only in the distribution of additional financial resources that the central authorities got a larger share. This is well understood by the local authorities and has had their support. As to the tax burden of the enterprises, plan-wise, and when the overall account is added up throughout the country, there has been no increase, but due to the structural changes in the tax system, it happens that there are some increases and some reductions, which is quite normal. At the same time, some carelessness may have occurred in the actual operation and in dovetailing during the implementation of the tax system that may have temporarily caused increases of the tax burden, but in these cases we have already adopted various measures to resolve the problems. Some enterprises report that their tax burden has become heavier, and there are here some other reasons involved, a very important one is that the new tax system has reduced loss of otherwise due tax revenue, so that some enterprises that had previously paid too little will now have to pay full taxes according to the unified tax law. I think that cannot be said to be a bad thing. It appears that there is here need for a change in concepts.

According to an old Chinese saying: "Ninety miles is only half a hundred-mile journey [the going is toughest toward the end of a journey]." This also applies to China's reform of the economic system. Although decisive advances have been achieved, it has still a long way to go and to overcome many difficulties. Speaking of the reform of public finance and taxation, to have it become more standardized and to better conform to the demands of the socialist market economy, it is furthermore necessary to set up a local taxation system, also to more thoroughly divide the respective authorities as between central and local governments, also to establish a scientific and standardized system of transfer payments. For all these tasks we must make good use of the time, choose the right opportunity, and accumulate experiences. In due course, China's new public finance and taxation system will become a more standardized and sounder operation, exhibiting to advantage our anticipated system of macroeconomic regulation and control.



### **The Role of Banking in the Reform of the Foreign Exchange System**

By Chen Yuan, vice president, the People's Bank of China

According to the spirit of the "Resolution of the CPC Central Committee on Certain Questions Concerning the Establishment of the System of Socialist Market Economy," passed at the 3d Plenary Session of the CPC Central Committee, and basing on China's past experiences with the reform of the banking system and in view of the problems presently encountered by the banking trade, the following are the three major objectives in the impending reform of the banking system: Establishing a central bank system which shall independently determine currency policy, under the guidance of the State Council; establishing a banking system with coexisting diverse banking organizations, in which policy-directed banking is separated from commercial banking, and in which the state-owned commercial banks shall have priority status; establishing a system of financial markets, which shall be uniform, open, orderly, competitive, and strictly controlled. Main emphasis in the reform of the banking system shall be the conversion of the People's Bank into a true central bank and conversion of the specialized banks into true commercial banks. Apart from that, we must also accelerate the reform of the foreign exchange control system, to speed up the convergence of China's economy with the international economy, and in the very near future we must also achieve a conditional convertibility of the RMB for regular items.

First, converting the People's Bank into a true central bank, establishing a strong system of macro-regulation and control in monetary affairs

We must change the functions of the People's Bank and clearly and definitely make it its primary responsibility to maintain stability of the currency and to strengthen supervision and control in monetary affairs. The People's Bank shall no more be direct supplier of policy-directed loans to society. The authority to issue currency, to regulate the basic interest rate, to take in and release the basic amounts of currency, and to regulate and control the total amount of credit shall be concentrated at the head office of the People's Bank of China. Branches of the People's Bank shall mainly have the following seven functions: Supervising and controlling financial affairs, investigating, keeping statistics, and analyzing financial affairs, regulating interbank money supply, management of the treasury, allocation of cash, control of foreign exchange, and interbank settlements. We must reform and improve the system of determining currency policy. According to the macroeconomic situation and the condition of monetary operations, the People's Bank shall in an elastic way use the deposit reserve rate, central bank loans, interest rates, loan limits, and by open market operations, foreign exchange operations, and other such methods firmly control overall money supply and the extent of loans, to prevent currency inflation. We must strengthen legislation on monetary affairs. This year the National Congress will discuss and pass the "Law Governing the People's Bank of

China," the "Bank Law of the PRC," the "Insurance Law" and the "Law on Negotiable Instruments." The People's Bank will according to law strengthen supervisory control over the banking structure, protect the interests of depositors and investors, and set up an optimal banking system.

Second, establishing and perfecting a system of banking institutions, converting the state's specialized banks into true commercial banks

Adhering to the principle of concentrating necessary capital funds for strong support of key constructions, and of enhancing the ability of macro-regulation and control of investments, we must establish a policy-oriented banking organ. At present we have already established three banks for policy-directed activities, namely the State Development Bank, the China Agricultural Development Bank, and the China Import-Export Bank. The State Development Bank is mainly financing the state's key constructions, and as such it is a bank for policy-directed investments and development; it mainly deals with loans for policy-directed key constructions of the state and discounting business. The China Agricultural Development Bank is mainly charged with granting policy-directed loans to secure the state's reserves of grain, cotton, and edible oil, for the procurement of agricultural and sideline products, and for agricultural development; on behalf of the government's fiscal agencies it allocates aid-agriculture funds and supervises their use. The China Import-Export Bank mainly grants credits for the importation and exportation of large items of complete sets of equipment, it discounts bills of exchange for exports of complete sets of machinery and electrical products and provides export credit guarantees. The capital funds for the policy-directed activities of all the three banks are allocated by the state's fiscal authorities, and another source of capital funds is the issuing of bonds to financial organizations. Banks engaged in policy-directed activities do not compete with commercial banking organizations; theirs are breakeven operations.

Third, we must further develop and perfect monetary markets

We must establish monetary markets with orderly competition and well-standardized operations, must overcome the regional separatism and form a unified market system throughout the country. For that purpose we must, first of all, standardize the currency market, primarily the market for interbank borrowing and lending of short-term funds, we must put a stop to the "indiscriminate borrowing and lending of short-term funds," have the banks become true tools of the central bank in the implementation of its currency policy, and have them become places regulating the total currency supply. Second, we must standardize the capital fund markets, must mainly institute strict control of the bond and share markets, and furthermore get them on a standardized and scientific course. We have to formulate and implement relevant laws and regulations, institute stricter checking and approval procedures for bond issues, and gradually establish a standardized bond market. We must gradually accelerate the reform of the



enterprise shareholding system, standardize the issue and marketing of shares, perfect the administration of securities exchanges and the exchange system. We must strengthen control of the interest rate, straighten out the relationship between deposit and loan interest rates, on the one hand, and the interest rates for securities, on the other hand, causing all interest rates to become gradually market-related.

#### Fourth, further reform of the foreign exchange system

The long-range objective of the reform of China's foreign exchange control system is the convertibility of the RMB. Generally speaking, after a country's economy has become market-oriented and internationalized to a very high degree, that country's currency is accepted by other countries, can be used in international interchanges and settlements, achieving a complete convertibility between own and foreign currencies. Noting China's present situation, conditions are not yet altogether ripe for an immediate convertibility of the RMB for regular items. The main reasons are: so far the exchange rate system has not yet been perfected; methods of international settlements and capacity to pay are insufficiently developed; a system for macroeconomic regulation and control is not yet fully in place; further time is needed for the transformation of operational methods in enterprises and for the establishment of a modern banking system, etc. For the near future, the objective of reforming the system of foreign exchange control is therefore a conditional convertibility of the RMB for regular items. This means a more liberal foreign exchange control of service-type settling of trade and trade-related bills, relying on state policy to guide, regulate, and control foreign exchange activities of enterprises, and to achieve a balance in international receipts and payments.

#### Main Moves in the Reform of the Foreign Trade Structure

By Wu Yi, minister, Ministry of Foreign Trade and Economic Cooperation

The new round of reforming our foreign trade structure, in which we are presently engaged, differs markedly from the reforms during the last 15 years in that it is conducted simultaneously with and complementary to reforms in other major areas of the national economy, such as public finance and taxation, banking, investments, planning, foreign exchange, and in the enterprise system; this round of reforms is unprecedented in breadth, drive, and also difficulties. We formulated the plan for this reform on the foundation of long-term investigations and studies, on the review of reform experiences during the past 15 years, and on drawing lessons from successful methods used abroad. Furthermore, as we now have a very favorable domestic and international environment, the time for reform is ripe and all preconditions are present.

First, the core and the key concerns in this round of reforms of the foreign trade system are reform of the foreign exchange control system, abolishing the double-track foreign exchange rate system, establishing a floating exchange rate system, which is based on market supply and

demand, which is a unitary system, and which is under control, so as to better bring into play the important function of the foreign exchange rate lever in the regulation of foreign trade. We shall at the same time abolish the system of sharing foreign exchange earnings with the foreign trade enterprises, and shall institute a system of settling and selling foreign exchange by banks. Correspondingly, we shall establish among the banks a foreign exchange market and improve the system of determining foreign exchange rates. We shall realize the conditional convertibility of the RMB for normal items. We have to say that these are major moves of China's foreign exchange and foreign trade system toward conformity with current international practices, toward standardizing the actions of foreign trade enterprises, toward correcting a series of distortions in the foreign exchange and foreign trade areas, and toward gradually realizing the convertibility of the RMB. For all these purposes our moves are of extremely important significance.

Second, primarily using legal and economic measures in perfecting our macroeconomic control of foreign trade. China's first "Foreign Trade Law" has already been submitted to the Standing Committee of the National People's Congress for deliberation, and other laws and regulations, supplementary to the "Foreign Trade Law," are now being drafted. It will take us about three years more to have in place a complete set of laws and regulations on foreign economic relations and trade. To meet the demands posed by the operation of the new public finance, taxation, and banking systems, we must at the same time firmly take in hand the improvement of the system of tax reimbursements for exports, and must also strengthen and perfect the system of foreign trade credits and risk assumption, according to current international methods.

Third, standardization of the system of administrative control of foreign trade, according to the principles of openness, fairness, and equitable returns. We shall institute tenders, auctions, or standardized distributions for quotas. We shall have a system of standardized administration of licences and a sound system of inspections and supervision.

Fourth, accelerating the transformation of business methods in foreign trade enterprises, and gradually establishing a modern enterprise system in the area of foreign trade, making every effort to integrate industry with trade and technology with trade, further liberating business operations and developing various types of enterprises to jointly participate in the "grand economic and trade" setup of foreign trade.

Fifth, strengthening and perfecting a system of foreign trade coordination and service, of which the import-export chambers of commerce shall be primary components. Strengthening self-restraint among foreign trade enterprises themselves, strengthening social supervision over business operations of enterprises and over macroeconomic administration.

Sixth, ensuring nationwide unified implementation of foreign trade laws, regulations, and policies; strengthening transparency.

The new round of reform of the foreign trade system has already started early this year. The first four months of this year have shown a sustained growth in import-export trade, a very normal orderliness of business operations, and have also shown that the new systems are functioning very well. This has given us increased confidence and affirmed our resolution to pursue the reform to its very end.

### **Economists Hold Regular Discussions in Beijing**

94CE0711A Chongqing GAIGE [REFORM] in Chinese No 4, 20 Jul 94 pp 115-116

[Article by Li Chengxun (2621 2052 8113) and Zhan Xiaohong (6124 1420 3163): "Forum Proliferation Indicates Lively Economic Community"]

[Text] Beijing's economic community came to life anew following the speeches delivered by Comrade Deng Xiaoping when he toured the south and after the 14th CPC National Congress called for the establishment of a socialist market economy. One sign of life is the variety of economic forums that numerous economic research institutions and private academic groups have launched spontaneously. Most of these forums, featuring free discussions, are held at regular intervals, self-financed, and open to the public. There is very low turnover among participants, who are of a fairly high caliber. Below is a general description of the forums we are familiar with.

1. China Market Economy Forum. Organized by Beijing Kaida Economists Consulting Center. Founded and chaired by He Wei, director of the center and a professor at Chinese People's University. Launched in April 1993, it meets once a month for half a day. So far 14 meetings have been held. Each meeting is attended by 50 to 60 people, most of them experienced older economic theoretical workers. Regulars include such well-known figures at Yu Guangyuan, Li Chang, Dong Fureng, Wang Yu, Lin Zili, Xiao Zhuoji, Yuan Baohua, Du Runsheng, and Zhu Houze. Reporters and editors are invited to attend the forum. Each meeting is sponsored by one to two enterprises, which is why it is also attended by people from the commercial sector. Sometimes when it has trouble lining up sponsors, the meeting is postponed. Among topics already discussed by the forum are financial reform, the transformation of the operating mechanism of large and mid-sized state enterprises, analyses of the macroeconomic situation, rural shareholding cooperative system, and intermediate market organizations. The Chinese market economy forum was the first of its kind, has held the most meetings, and exercises the most influence. Each of its more recent meetings has attracted theoretical workers from Hebei, Shandong, Jilin, and Shanghai who came to Beijing for the specific purpose of attending the forum. JINGJI RIBAO carries a summary of each meeting. The forum itself puts out its own restricted-circulation publication entitled "China Market Economy Manuscript."

2. Chinese Economists Forum. Organized by the Beijing Market Economy Institute. Founded and chaired by Professor Dong Fureng, honorary president of the National People's Congress financial and economic committee, and Xiao Zhuoji, president of the institute and a professor at Beijing University. Launched in August 1993, the forum meets every two months for half a day. So far five meetings have been held. The topics discussed include, in chronological order, ownership system: means or ends, financial reform, how to transform large and mid-sized state enterprises into modern enterprises, analyzing and forecasting China's economic situation in 1994, and mobility of property rights. Each meeting is attended by anywhere from 70 to 80 people. Apart from the chairman, who is an experienced economist, most participants are young and middle-aged economic theoretical workers such as Lin Yifu, Fan Gang, Wei Jie, Liu Wei, and Zhong Pengrong. Officials from the State Restructuring of the Economic System Commission, Economic and Trade Commission, and State Planning Commission also attend the forum as scholars. Because of the presence of so many younger economists, the forum is a lively event where original ideas are bandied about. Shenzhen Daye Shareholding Company, Ltd. has been giving the forum powerful financial support. Both GONGREN RIBAO and JINGJI RIBAO carry summaries of forum discussions. The forum puts out its own restricted-circulation publication "Market Economy Research Report."

3. Financial Development Forum. Jointly founded and hosted in turns by the Chinese Management Science and Financial Development Institute, GINRONG SHIBAO, the theoretical department of the Central Radio Station, ZHONGGUO JINRONG, JINRONG YANJIU, JINRONG KEXUE, and the Beijing branch of the Chinese Bank of Industry and Commerce. Launched in May 1993, it meets monthly for a one-day session. So far nine meetings have been held. This forum is highly specialized. Every agenda closely revolves around the reform and development of China's financial system: the commercialization of specialized banks, financial macroeconomic regulation and control, how to develop cooperative banks, financial development strategy for Beihai Shi, the development of rural cooperative societies, and the central bank's monetary policy. Each session is attended by about 50 people, most of them financial theoretical workers in Beijing. Regulars include Yang Peixin, Yue Haikuan, Zhan Wu, Liu Guangdi, and Qin Chijiang. Based in Beijing, the forum has also been held in Beihai and Zhengzhou. The forum is well funded and its activities are widely covered in the press. JINRONG SHIBAO carries a summary of every meeting and even reprints the speeches in full.

4. Chinese Enterprise Forum. Founded jointly and hosted in turns by nine organizations, including the China Natural Dialectical Method Institute, Oriental Enterprise Research Institute, Beijing Entrepreneurs Club, and ZHONGGUO JIYE BAO. Its chairman is Comrade Li Chang and its participants are all people interested in enterprise reform and development. They can be divided into four groups. 1) veteran leaders of certain industrial

departments. For instance, a host of retired ministers and vice ministers such as Yuan Baohua and Gao Yangwen have all attended its meetings. Government officials in charge of enterprise management are also invited to attend; 2) entrepreneurs in the capital, including some retired factory directors and managers; 3) enterprise theoretical researchers and academics; and 4) editors and reporters from newspapers and publications that deal with enterprise management. Among topics discussed are: analyzing and projecting the macroeconomic situation, modern enterprise system, tax reform and enterprise development, and investing in enterprises instead of making loans to them. The forum is careful to combine theory with practice, reflects the urgent problems facing enterprises, and echoes the voice of entrepreneurs. The expenses of putting together a session are borne by the hosting organization. Funding is not a major concern to the forum because of its close ties to enterprises. ZHONGGUO JIYE BAO is the principal medium covering its activities.

5. Biweekly Academic Forum, Beijing Tianze Economics Research Institute. Organized by Tianze Economics Research Institute, a private group. It is chaired by Professor Mao Yushi. Founded in August 1993, it meets once every 2 weeks for a half-day session. Thus far a dozen meetings have been held. A fairly small gathering, it is attended by about 20 people, most of them special researchers of the institute, including such young and middle-aged academics as Fan Gang, Cheng Hong, Liu Shijin, Li Yang, and Zhang Yuyan, who have earned a reputation for their research in systems economics. Other participants in the forum are members of the Society of Chinese Economists in the United States who have come home to lecture or do research. The institute stresses the use of systems economical methods and theory to study Chinese economic change. Accordingly most of the topics discussed have to do with that focus: the thought of the winners of the Nobel Prize for Economics, why they won the prize and their inspiration for Chinese economists; the cooperative ownership system in rural China; China's grain procurement and marketing system; stock market unprotected by property rights, so on and so forth. Forum activities are mainly covered by CHANGJIANG JINGJI DAOBAO.

6. The weekly luncheon and academic public lecture organized by the Economics Institute of the Chinese Academy of Social Sciences. Chaired by Professor Yu Zuyao, Dr. Wang Zhenzhong, and Dr. Fan Gang, the institute's deputy directors, the luncheon and public lecture is short in duration, small in scale, and very modest in expenses. Each participant buys a lunchbox and eats it as he listens to the lecturer describe his latest research results or talk about the latest theoretical trends. He may also ask the lecturer questions. Each session lasts no more than half an hour and the participants number between 20 and 30, most of them young and middle-aged scholars from inside and outside the institute. There are also some foreign scholars. Launched in April 1994, it has heard lectures on

the following topics: China's incremental reform and transitional economics, by Fan Gang; privatization in the Chinese economy, by Liu Yingqiu; the inflation debate in the economics community and Chinese economic thought, by Yang Fan; the public property management system, by Zuo Daipei; and a historical review of government intervention in the economy, by Zhu Yingui. Dr. Zhang Weiying of Oxford University also has been invited to report on the latest development in enterprise theory. Since almost every lecturer has a doctorate in economics, the forum has been dubbed a forum of Ph.D's. Systematic coverage of the lecture is provided by JINGJIXUE XIAOXIBAO.

7. The monthly economic situation analytical meeting of Capital Iron and Steel Complex. This forum differs from others in that it has a simpler mission, which is to analyze the economic situation. Economists are invited to the meeting primarily to provide a basis for decision-making by the complex and to consult. Because of its long history (it was launched in 1989) and the high caliber of the attendees, it wields considerable influence. Put together by the Capital Iron and Steel Complex Research and Development Company, its participants can be divided into three groups: officials from central ministries and commissions in charge of economic management, such as the Economics and Trade Commission, State Planning Commission, State Commodity Prices General Administration, Ministry of Labor, State Statistical Bureau, and the State Information Center; about a dozen economists who are regularly invited to the meeting, including Yang Peixin, Dai Yuanchen, and Li Zhongfan; and personnel from the iron and steel complex itself. Each meeting is attended by about 40 to 50 people. Typically, officials from economic departments and armed with a wealth of statistical data brief the attendees about the national economic development. Then the attendees will analyze the situation using the data supplied. News units are usually not invited. The analytical meeting aside, Capital Iron and Steel Complex also convenes an economic situation analysis enlarged meeting each quarter, which is attended by slightly more people and is more open. There is occasional press coverage on the latter gathering.

#### CPPCC Members Discuss Economic Problems

94CE0594A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, 5 Jun 94 pp 24-25

[Article in "CPPCC Economic Forum" entitled "The Second Session of the CPPCC Eighth National Committee Discusses Several Key Economic Problems"]

[Text] The second session of the CPPCC Eighth National Committee which ended recently was a great "democratic, realistic, unifying, and exciting" meeting. At the meeting, the committee members actively participated in political discussions and came up with plans and policies and offered many ideas and suggestions on the economic tasks. Among the most widely discussed were the following issues:



## I. On the Macro Readjustment Problems

Some committee members pointed out that the government work report's suggestion of controlling the magnitude of price increase this year to under 10 percent is a very important and arduous task. The economy grew more than 13 percent in 1993, but that rate of growth was sustained mainly by an accelerated rate of increase in investments, excess currency issuance, and deficit spending by the government. Currently, inflationary pressure and deep-seated conflicts are still serious problems: One, there is excess investment demand while investment efficiency is poor. After taking into account the price increase factor, society's fixed asset investments grew 45 percent in 1993 compared to 1992, but state-owned industries' production only increased 12 percent. The input-output ratio is low, and if the investment scale is not kept under control this year, it will put tremendous pressure on product prices. Two, currency input continued to increase in 1993; currency issuance alone increased by 100 billion yuan over the previous year's, and loans topped 70 billion yuan. These will necessarily make stabilizing the currency value more difficult. Three, conflicts in the industrial structure are even more prominent. In 1993, the industrial to agricultural growth ratio exceeded the normal 3:1 ratio to top 5:1 ratio. Ordinary industries grew faster than the supply of energy resources by 24 percent, power generating capacity by 13 percent, and cargo handling capacity by 22 percent. Obviously, the industrial structure was unbalanced. Four, the new wage system to be implemented and other new policies yet to be introduced this year may also increase money input.

Some committee members believed that the Chinese economy has reached the safety limit, and if macro regulation and control is eased, it may trigger serious inflation and may cause economic stagflation, which will pose a serious threat to social stability, to the smooth process of various reforms, and to the establishment of the new economic system. Therefore, curbing inflation has become the top priority in our effort to maintain social stability and guarantee the national economy's healthy development. Thus, the committee members suggested that, one, we should perfect the complete set of economic, administrative, and legal macro regulation and control target system and execute regulation and control measures with the proper force and in a timely fashion to avoid losing macroeconomic control again. We should put the macro regulation and control power in the hands of the central authorities, tightly control any grand gesture to expand demand and stimulate production, and curtail investments by governments at all levels, keeping society's fixed asset investments to under 1 trillion yuan and the rate of economic growth below 10 percent. Two, currency input should be put under rigid control at a level not exceeding 500 billion yuan. We should continue to control the loan scale and bar People's Bank from operating profit-oriented financial institutions and making profit-seeking investments, so as to maintain the central bank's impartial position and avoid new internal credit expansion.

## II. On Agricultural Problems

Some committee members said that since agriculture is the foundation of the national economy and the basis of social stability, leaders at all levels must always put agriculture first. We had a bumper grain harvest last year, but the total planting area for cotton and sugar crops has been greatly reduced. Even China's grain problems have not been completely solved yet, and although total production has been increasing year after year, per capita grain consumption has not increased since 1984; we are not home-free yet by international grain-supply standards, and we still have a long way to go before achieving the goal of becoming relatively well-off and attaining supply-demand equilibrium. Today, there are some agricultural problems which warrant close attention: Because grain is less profitable than other crops, the increase in the peasants' income has been slow, and they are less enthusiastic about growing grain and are cutting back input in the farmland, causing a decline in soil fertility while some land is even being abandoned; construction of basic water conservancy works has been neglected, and agriculture's ability to combat disasters is relatively poor; scientific and technical talents in the rural areas are abandoning agriculture, resulting in serious "brain-drain."

In light of these problems, many committee members suggested that (i) governments at all levels should increase agricultural input. Sixty percent of China's farms are moderate-to-low-yield farms with great potential for increasing output. The key lies in increasing input. The grain business generates great social but little economic benefits and should be subsidized. We must encourage agricultural production and increase agricultural income through preferential tax policies and the readjustment of procurement prices and so on. (ii) The marketization of agricultural means of production should move slowly; chemical fertilizers and other agricultural means of production are what "feed" the grains, and because the agricultural base is still weak and the peasants' ability-to-bear is low, we should move toward the market economy in steps and in coordination with the macro regulation and control measures. (iii) We should set up grain reserve bases at the central and local levels, establish a market hazard fund, bring in the futures market mechanisms, and set up a new grain management system based on the state-owned grain system. (iv) We should strengthen the construction of a socialized agricultural service system and use preferential policy to support the supply and marketing cooperatives' socialized services for agriculture. We should stabilize and develop the agricultural science and technology team at below-county-levels to provide agricultural development with the necessary scientific and technological guarantees. (v) We should make developing the shareholding cooperative system the focal point of further deepening rural reform. The shareholding cooperative system gives expression to the advantages of the collective economy and clearly defines property rights and brings about the optimal allocation of key factors of



production. It can solve the problems of township enterprises' ill-defined property rights and deteriorating management mechanisms and further liberate the rural productive forces. It meets the needs of the socialist market economy and should be given full recognition.

### III. On the Problems of the Large and Medium-Sized State-Owned Enterprises

More than a few committee members said that too many of the large and medium-sized state-owned enterprises are over-staffed, their equipment are obsolete, their mechanisms are outdated, and they are in dire straits. If allowed to go on, at some point it will undermine social stability, and therefore it deserves our close attention. The state must resolutely try to solve the problems of the large and medium-sized enterprises. One, it must help ease their burdens and promptly set up a social security system. For example, some state-owned assets may be sold and the money used to set up a workers' social security fund; enterprise debts should be dealt with properly on a case-by-case basis, and some bank loans can be turned into investments or treated as bad-debts; social services should be separated from enterprises' other functions to ease enterprises' burdens. Two, we should further sort out our ideas and promote the restructuring of the state-owned enterprise property rights system. We should promptly restructure the state-owned property management system and change today's situation where the government's function as representative of the owners of state properties is mixed up with its social administration functions. We should designate a representative of the owners of state properties, so that the ownership rights are unified and put in their proper place to form a new state-owned property management and administration system. Three, we should set up a legal person system for enterprises and clearly define property rights and truly make the state-owned property shareholding system a diverse system and separate the ultimate ownership rights from the legal person's property rights. We should start out from historical and current conditions to properly delineate state-owned enterprises' property rights and set up a property rights market as soon as possible to promote property rights exchange and capital circulation. Four, in accordance with the development of a modern enterprise system, we should restructure the enterprise leadership system and resolve the relationship between the "three new groups" (shareholders, board of directors, and board of supervisors) and the "three old groups" (party committee, workers' representative assembly, and labor union,) so as to avoid creating new internal squabbles and making it difficult for enterprises to function. We should reform the existing cadre personnel system and separate enterprise management and administrative personnel from the state's ranks of cadres and gradually form a team of professional entrepreneurs, so that the managers can find the best jobs through competition and play their most effective roles.

### IV. On the Problem of Changing the Government's Functions

Some committee members pointed out that the government's function as representative of owners of state properties is mixed up with its social economic management

functions, and many functions are scattered among different administrative departments: the planning department controls the power to make investments, the financial department controls the right to the profits, and the department in charge of enterprises is in control of the disposition of properties and the hiring and firing of managers, and as a result, everybody is interfering in enterprise production and management activities but none wants to take the final economic responsibility for state-owned enterprises. This kind of "ownership by the whole people and representation by respective government departments" is contrary to the demands of the modern enterprise system. We must comply with the principles of "separation of government and enterprises" and "separation of government and properties," streamline government organs, and change the government's functions. Changing the government's functions is the prerequisite for changing enterprise mechanisms. If government organs are not streamlined and the administrative departments are not changed, the government's functions cannot be changed, and enterprises cannot become autonomous. The restructuring of government organs since last year has accomplished little; the changes have been superficial, and some organs have even expanded and others have tried to take back some power. Government organs basically are in the same mode they were in during the planned economy era. On this, the committee members suggested seriously considering government reorganization and, in accordance with the thinking of "small government, big society," promptly designating a representative for the owners of state properties to integrate responsibilities, rights, and profit and separate the function as representative of ownership of state properties from the government's functions and put that distinction on a legislative track, so as to establish a state administration and management system that suits the socialist market economy and meets the needs of enterprise reform and the development of the productive forces.

### Economic Development Group on Theory, Policies

94CE0692A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese No 4, 24 Jul 94 pp 8-18

[Article by Topic Group: "Maintaining Fast Growth Essential To Economic Development, Social Stability"]

[Text] Editor's note: Since the implementation of reform and the introduction of the open policy, the Chinese economy has grown by leaps and bounds and considerable social progress has been made. From now, the next 15 years will be a pivotal time for achieving part two of the strategy of social and economic development. Whether or not China chooses the correct development strategy in this period will directly help decide its chances of joining the ranks of moderately developed nations in the world early next century. For this reason this magazine is publishing the results of some relevant research. In this article the writers freely express their views on the overall strategy and policy choices for future economic development,

industrialization, urbanization, and other issues. The magazine hopes that the piece will spur even more thoroughgoing research in China's economic development strategy.

#### Economic Development in China: Conceptual Thought and Policy Choices (Part 1)

#### "1991-2010 Economic Development Thought" Topic Group

##### 1. Overall Goals and Basic Characteristics of Economic Development 1991-2010

###### 1) Overall Goals of Economic Development

Using a macroeconomic model we have developed ourselves and other methods of quantitative analysis, we have made some projections about China's economic development trends in the next 17 years and, in conjunction with qualitative analyses, come up with a conclusion, namely that the 1991-2010 period will be a golden era of economic growth in China. Based on model projections, China's GDP [gross domestic product] will continue to grow at an average annual rate of 9 percent throughout the 1990's, reaching 4,185 billion yuan by 2000 (in 1990 constant prices) or 3,283 yuan per capita. Between 2001 and 2010, China's GDP is not expected to expand at a rate smaller than 7.5 percent annually. On that assumption, the GAP will be 8,626.9 billion yuan by 2010. If the average annual natural population increase rate can be held below 0.7 percent after 2000, then the per capita GDP will reach 6,311 yuan. The average annual GDP growth rate between 1990 and 2010 will be 8.25 percent.

This growth trend will further boost China's international economic standing, markedly narrowing the gap between this country and the world's developed nations in both overall terms and on a per capita basis. By 2010, China will remain a developing nation in terms of per capita income, but can expect to graduate from the ranks of low-income nations to join other moderate-income countries. In terms of the overall size of its economy, China may be counted among the leaders in the world.

Because of the complexity of determining exchange rates, there is still no balanced exchange rate that is universally accepted for use in the international comparison of economic development levels. However, even if we make calculations using different exchange rates, we must arrive at the broad conclusion that China will be among the top three in the world in the overall size of its economy by the year 2010.

###### 2) An Analysis of Factors Behind Economic Growth

What is behind China's rapid economic growth? What will enable China to sustain such growth for over 30 years (starting from the 1980's)? The answer can be summed up in one phrase: the universal law of social economic development and China's special conditions. Specifically we are talking about three aspects:

###### A. The historical background of fast economic growth in China

Like everything else, economic development has its own internal objective laws. A study of industrialization in several newly industrialized nations since the 1970's has identified most of the basic relations during this phase and given us a more coherent theoretical understanding. To begin with, economic growth is the outcome of structural change. In other words, the content of economic growth is simply the change in economic structure. Second, structural change correlates to the level of per capita income in an invariable pattern; economic growth differs in structural content at different income levels. Third, there is a tendency for economic growth to pick up steam as an economic structure makes the transition from a traditional agricultural society to a modern industrial society.

Industrialization is that unique historical process which, through mass production, satisfies the material and cultural needs of a vast number of people, at the same time changing their way of life and methods of production. According to that definition, new China's push for industrialization in the first 30 years after its founding can only be referred to as narrow national industrialization. The primary function of the resultant industrial system was to help China thoroughly escape its enslavement and contribute to the nation's political independence (by, for instance, enhancing its defense capability externally and amplifying its capacity for political management internally.) Not only was this rational, but it was also necessary. Furthermore, it was an essential preparatory stage for effecting the change from a traditional society to modern society across the board and hence achieving industrialization all round. The industrial system created in this stage does not signify the completion of industrialization. On the contrary, it merely drew back the curtain on the prologue to all-round industrialization in China. Only in the 1980's did industrialization as it is typically understood, which is characterized by the satisfaction of a population's material and cultural needs, get under way in earnest in China, accompanied by market-oriented economic structural reform. Only then did the string of regular relations brought to light by the experience of industrialization in nations around the world begin to manifest their own inevitability. And only then did structural change occur across the board accompanied by an ever-rising living standard and fueling fast economic growth.

###### B. Demand analysis and structural change

In the course of industrialization, mass industries post higher productivity than traditional industries, pushing up income levels. Rising incomes create new demand and stimulate the development of new industries by providing the purchasing power necessary for their development. The development of production, in turn, boosts incomes to new higher levels, setting up a cyclical pattern. It is this cyclical process, self-sustaining and self-stimulating, that generates the robust momentum of industrialization. Economic progress since the 1980's has made it clear that such a momentum has materialized in China.

No sooner had the Chinese people passed the subsistence level in the mid-1980's than consumption demand rapidly

turned to manufactured industrial goods represented by durable consumer goods such as domestic electrical appliances. The demand was so strong that it drove the development of those industries and fueled the swift growth of industry overall and the entire economy throughout the 1980's, doubling per capita income in China in the process.

In the wake of economic growth and soaring incomes, a host of new structural contradictions began to form and develop in economic life in the late 1980's even as a new growth opportunity presented itself in Chinese society and economy. On the one hand, as durable consumer goods like domestic electrical appliances became more and more commonplace among urban households, the consumption pattern in urban China hitherto dominated by textile and light industrial products began to evolve into its modern form epitomized by the products of heavy industries such as housing and automobiles. On the supply side, the severe lag in the development of basic industries and the infrastructure, already apparent in the mid-1980's, had deteriorated into a gross imbalance in the industrial structure by the end of the decade, resulting in the boom-and-bust cycle in the years between 1988 and 1990. At the same time, there was an acute demand on the part of large numbers of surplus rural workers for the industrial structure to be transformed so as to free up more room for industrial development and hence provide more job opportunities. We can expect the coming structural transformation to be accompanied not only by an explosion of development in the basic industries and the infrastructure, but also by the movement of the army of surplus rural workers out of agriculture and a steep rise in the incomes and hence a massive increase in the purchasing power of a vast number of peasants, which, in turn, will generate an even bigger demand for the products of consumer goods industries, the kind of purchasing power and demand that would make the 1980's pale in comparison. When that comes to pass, it will propel China's consumer goods industry onto a new growth curve. The structural change described above no doubt is more profound than that in the 1980's. Moreover, it will be occurring in a huge nation with 9.6 million square km and 1.2 billion people. Because of China's terraced pattern of regional growth, the outcome of inter-regional development imbalances, we will certainly experience a long period of sustained growth, with development coming in waves, one pushing the others ahead of it. Nothing like it so far has happened in any of the world's developing nations.

### C. Supply analysis and spending structure

Economic growth is not a matter of subjective choice on the part of human beings. Nor can it be determined by subjective human wishes. When the necessary conditions are lacking, things will get out of hand if we pursue fast growth exclusively. Similarly, when the economy is inherently predisposed to fast growth, we will lose a historic opportunity if we try to slow it down. This is true at the demand end and even more so at the supply end. According to the simple principle brought to light by the

Haluode-Duoma model, balanced growth materializes only when the growth rate satisfies the requirement that investment equals savings. Otherwise, unemployment, the idling of production capacity, and a large-scale recession will occur. Given the existing level of economic development in China today, we need to invest in a big way in the years ahead, spending thousands of billions of yuan each and every year. If economic growth cannot be sustained at a fairly high level and investment kept up on a corresponding scale, then the value of this portion of the output will not be realized and social reproduction cannot proceed properly. It should be clearly understood, therefore, that a suitable rate of growth is not the same as slow growth, nor does steady increase equate slow increase.

The Chinese people are traditionally frugal, which is a virtue. In addition, it necessarily takes time for people to adapt to changes in the consumption structure. As a result, Chinese people are strongly predisposed to save. Taking into consideration every factor, we project that China's accumulation rate will hold steady at about 34 percent in the next 20 years or so. Based on that assumption, and even after factoring in possible changes in the capital-output rate, the GDP should continue to grow at 9 percent or so in the 1990's and not drop below 7.5 percent between 2001 and 2010. Anything less would hurt economic stability.

In the next 20 years or so, China's demographic pattern will remain in the "prime of life," with an extremely abundant supply of manpower. If such manpower is not fully utilized, we will end up with practical problems like a sharp jump in the unemployed population and haphazard migration. Moreover, by failing to utilize existing human resources at the right time to provide accumulation for the future and make the necessary material preparation for the silver wave (the graying of the population) that will descend on us after 2010, we will certainly leave a legacy of trouble to our children and our children's children. In this sense, too, the Chinese economy must grow at a robust pace, something it is capable of doing.

### 3) Achieving High-Quality Fast Growth

The kind of economic adjustment and growth we pursue is not just a quantitative expansion but also high-quality growth. High-quality growth should mean:

1) The economy grows rapidly in a sustained steady fashion, avoiding the boom-and-bust cycle. 2) Price increases are confined to a reasonable range. 3) Fast growth is not purchased with high inputs, high consumption, and environmental degradation. 4) The industrial structure is continuously optimized in the course of fast economic growth. 5) Market supply and demand are largely in balance, with neither severe shortages or serious surpluses. To bring about high-quality fast growth, we must take pains to handle the following essential economic relations properly:

#### A. Relations between fast growth and inflation

As far as China's inflation is concerned, we cannot sweepingly blame it on fast growth. In other words, we cannot



simply characterize it as demand-driven. The fact of the matter is that soaring prices in China are to a large extent cost-driven. A notable example in the 1980's was the soaring prices of farm products. According to statistical analyses, food accounted for 60-70 percent of the price increases between 1984 and 1987. Skyrocketing food prices had their origins in the low comparative advantage of agricultural labor, a problem that is still with us today. Given the situation in China today, the basic way to end the low comparative advantage of agricultural labor is no longer the upward adjustment of farm prices, but to increase peasants' incomes by enhancing agricultural productivity. The only way to achieve this goal is the extensive adjustment of the industrial structure, which means the large-scale shift of surplus agricultural manpower into the secondary and tertiary industries. This is the most basic means to contain agricultural prices. Otherwise, in a commodity economy, profit-driven workers will necessarily pursue their own opportunity cost, leading either to agricultural decline or to persistent price increases. Clearly, fast growth characterized essentially by structural change as described above will not drive up prices but will on the contrary constitute a drastic and root-and-branch solution to the problem of price increases. Fast growth in the course of structural change will indeed boost the prices of basic industries like transportation, energy, and raw materials. Such increases, however, are both a reasonable correction of the longstanding underpricing affecting those industries and a requirement for their development. The question is how will price increases in basic industries affect the prices of downstream industries, particularly consumer goods. In China today, downstream industries, particularly light industries, have not only developed ahead of basic industries but are easier to develop. Market competition will effectively hold down their price increases, as demonstrated by the price situation in 1993, and ultimately force the excessive returns on investment in downstream industries such as the light industry to be shifted to basic industries. Finally, most basic industries are characterized by significant economies of scale and rapid gains in productivity. After the early phase of the transition, and in the long haul, they will not be the cause of persistent price increases. To sum up, it is possible to prevent excessive price increases even as the economy is expanding rapidly. Based on our projections, a more satisfactory scenario is one in which the ratio between economic growth and price increases does not exceed 1:0.65. If past experience is any guide, this is both achievable and tolerable by the Chinese people.

#### B. Relations between fast growth and economic efficiency

Inefficiency has long plagued Chinese economic development. However, a detailed analysis of the meaning of so-called efficiency will make it clear that in China fast growth will not come about at the expense of efficiency. For three decades before 1979, inefficiency referred to a situation in which rapid output expansion was accompanied by minimal increases in the level of public consumption, hence the very limited practical benefits. However, as we noted above, the primary objective of economic growth

in that period was to pave the way for China truly becoming an independent country politically. As far as this objective is concerned, we cannot describe that era as inefficient. Another meaning of inefficiency refers to the waste caused by proportionate imbalances resulting from the single-minded pursuit of fast growth. Yet the essential characteristic of economic growth in the future is the large-scale transformation of the industrial structure in response to demand, precisely the way to end this kind of economic inefficiency. As for the original meaning of the concept of efficiency, namely productiveness, it is precisely the essence of industrialization. The source of modern economic efficiency is the large-scale harnessing of natural forces by mass industry. Only large industries utilizing modern science and technology can create the conditions for the creation of unprecedented wealth through the utilization of natural forces. It is the creation of the even more efficient industrial structure that constitutes the source of future fast growth. Future fast growth, therefore, is essentially efficiency-based.

#### C. Relations between fast growth and market

In recent years the market has become a major constraint on economic growth. As far as the capital goods market is concerned, the cause of such a constraint is rather straightforward: the failure of the scale of investment to keep up. The only solution here is to accelerate growth. Turning to the consumer goods market, the situation is more complex. As far as urban households are concerned, rising incomes mean changes in the consumption pattern. Peasants, on the other hand, find that their income level prevents them from raising their consumption level. For the urban population, changes in the consumption structure mean more spacious and comfortable living quarters, which sets off a chain of demands forming new consumer goods such as home decorations, air-conditioners, telephones, and private cars. Naturally this means explosive growth in the building materials, construction, automobile, and tertiary industries. As for peasants, an increase in incomes can come about only by joining the secondary and tertiary industries. Thus both changes in the consumption pattern of the urban population and the move of rural manpower into the secondary and tertiary sectors portend the transformation of the industrial structure. In China, therefore, although it appears on the surface that market demand constrains economic growth, in reality the improvement of the market condition is contingent upon the economic growth rate. In our opinion, the issue should be rephrased correctly thus: By and large it is growth that constrains the market, not the other way round.

#### D. Fast growth and "bottleneck" constraints

In China basic industries like transportation, energy, and raw materials, infrastructural development, and urbanization have indeed fallen behind. But this is precisely why the acceleration of the development of basic industries, infrastructural construction, and urbanization will be a big part of economic growth in China in the future. Without such acceleration, growth will be deprived of its base. Therefore, we should first and foremost regard the laggards

as the driving force behind growth, not a hindrance. Certainly, for each short-term period in question, the laggards indeed manifest themselves as a restraint on growth. But it is the very process of overcoming the various short-term constraints that constitute long-term economic growth. More specifically, it is precisely by developing these lagging industries that we will be able to move large numbers of rural workers out of agriculture, raise their incomes, and create the market and resource conditions for consumer goods production, thereby setting up a positive link between growth and consumption. For the urban population, the development of these industries too will enable them to change their consumption pattern, making available the necessary goods and providing them with the requisite incomes. Moreover, the development of basic industries is bound to lead to the birth of such mainstay industries as construction, iron and steel, automobile, building materials, and chemical industries. It would be hard to imagine a high GDP without these industries.

The gradual establishment and perfection of a socialist market economy will lay a new and even more effective institutional base for the fast and high-quality development of the Chinese economy. Provided we combine correct economic development, regulatory, and control policies with effective operating mechanisms, fast, sustained, and high-quality economic growth in China is entirely within the realm of possibility.

## 2. Overview of Economic Structural Change 1991-2010

### 1) The Trend of Structural Change

In the course of industrialization changes in economic structure are correlated with income levels. There are stages of economic growth at different income levels. Each stage is related to but also differs from other stages. The most striking development characteristics are the development of industry ahead of other sectors, the sharp expansion of the manufacturing industry relative to the entire economy, and a succession of growth stages with different emphases, first consumer goods industries, then heavy and chemical industries (which, in turn, has its own order: raw materials industry, then processing and assembling industries).

Economic development in China has its own special features, but it too follows this law.

With full-fledged industrialization under way in the 1980's, the secondary industry was not only far ahead of the primary industry but outpaced the tertiary industry as well, a lead it is projected to retain in the next 20 years when the tertiary industry itself is expected to grow much more rapidly, stimulated by mass industry and the accompanying urbanization. Thus marked structural changes will occur in the economy in the next 20 years. Based on calculations using the model and quantitative analyses, we project the following trends in structural industrial change in China in 1990-2010. (See Table 1)

Table 1. Changes in China's Industrial Structure 1990-2010

	1990	2000	2010
Primary Industry, Growth rate (%)	(1981-1990)6.2	(1991-2000)4.0	(2001-2010)4.0
absolute value (in billion yuan)	5017	7426	10992
share (%)	28.4	17.7	12.8
Secondary Industry, Growth rate (%)	(1981-1990)9.5	(1991-2000)11.0	(2001-2010)8.1
absolute value (in billion yuan)	7717	21912	47671
share (%)	43.6	52.6	55.2
Tertiary Industry, Growth rate	(1981-1990)10.9	(1991-2000) 9.7	(2001-2010) 8.2
Absolute value (in billion yuan)	4974	12319	27606
share (%)	28.0	30.0	32.0

calculated according to 1990 comparable prices

The emergence of the above structural changes has its roots in the evolution of the demand structure in the wake of rising incomes. To begin with, the demand structure of consumption changed, as epitomized by the decrease in the Engel coefficient. Analyses of the household consumption pattern in China in the 1980 show that food demand elasticity began to head downward in the middle of the decade. At the same time, the demand elasticity of consumer goods like clothing largely held steady while that of other industrial manufactured goods, housing, and electricity shot up. The inevitable outcome was the explosive growth of industry, particularly consumer goods industry. Moreover, the development of industry in itself

made production even more circuitous, vastly boosting the demand for intermediate inputs and, in a chain-like reaction, increasing the scale of modern industry. Thirdly, the development of the production support system badly needed by mass industry—the tertiary industry, particularly the infrastructure—requires a massive amount of capital and materials, which too is dependent on rapid industrial development.

More thorough analyses reveal that even as structural change in China demonstrates its own special characteristics even as it remains true to the universal principles above. As a Johnny-come-lately developing country, China could learn from the experience of countries that have

gone ahead of it. So it has even more choices when it comes to picking which industry to develop and often has been able to telescope into a short period of time a development process that had taken the pioneering nations several decades, even a century, to complete. Because of telescoping, the various development stages overlap one another to some extent, blurring the characteristics unique to a particular stage. This puts even tougher demands on our industrial policy, challenging it to be even more targeted, stage-specific, and flexible.

A clear understanding of the roles and interrelationships among the various sectors of the economy, including agriculture, which is part of the primary sector, industry, part of the secondary sector, and the infrastructure, part of the tertiary sector, during the course of structural change has equally important policy implications.

## 2) Agriculture

As industrialization progresses, the trend is for economic development to become less and less dependent on agriculture. Hence the evolving place of agriculture at different stages of industrialization. By "evolving place of agriculture," we refer to, on the one hand, the change in the size of agriculture relative to the entire economy, and, on the other, changes in the function of agriculture in the entire national economy. In the early days of industrialization, industrial development is contingent on agricultural development. It is agriculture which supplies food and raw materials for industrialization. It is also agriculture that provides accumulation for industrial development. As industry gains ground, this dependency relationship will diminish over time. In particular, it will be industry that provides accumulation for agriculture. It is to industry that agriculture must turn for more intermediate inputs and funding support. And it is industry that agriculture must rely on to absorb its surplus work force. Be that as it may, China is a huge nation with 1.1 to 1.3 billion people. In addition, the Engler coefficient is higher than that in developed nations. Accordingly agriculture will continue to play a role in the next 17 years that cannot be ignored. The important thing is that correctly and promptly assessing agriculture's role in China's national economy has become an important topic in development in the future. For the moment what merits special attention is distinguishing among the three different meanings of the so-called agricultural issue, namely the development of agricultural production, peasants' incomes, and rural industrialization, and taking care to use different methods to resolve different contradictions.

## 3) Industry

Industry will remain the lead sector of the economy in the next 20 years of development not only because it will continue to outpace everything else in terms of rate of growth for a long time to come, but also because of its dominance in inter-sector linkages. In terms of industry-agriculture relations, on the one hand, industrialization must provide even more material inputs for agricultural development, a prime prerequisite for agricultural development in the days ahead, and on the other, it must absorb

more and more rural surplus workers, which is an effective way to raise peasants' earnings. And raising peasants' earnings is a major requirement of improving peasants' lot in the future. Turning to its relationship with the tertiary industry, not only must industry provide a huge amount of capital goods for the infrastructure, but it also has the capability to create demand essential to the development of the tertiary sector. Only by affirming the secondary industry's lead position can we avoid sham prosperity in the tertiary industry.

## 4) Tertiary industry

Be sure to distinguish between the infrastructural sector of the tertiary industry and its service sector. It is clear from international experience that in the course of industrialization the infrastructure absorbs more capital than what is spent in the primary and manufacturing industries combined. The serious lag in urbanization in China and the severe strains on transportation, posts, and telecommunications systems argue in favor of developing the infrastructure on a priority basis. It is what the development of the primary and secondary sectors objectively require. It also constitutes the material base for the tertiary sector's own development.

## 3. Forecasting Personal Consumption Level and Structure

### 1) Forecasting Personal Consumption Level 1991-2010

A. Nation-wide personal consumption. Between 1978 and 1992 personal consumption in China rose from 175 yuan to 933 yuan, up 4.3-fold or 12.7 percent annually on the average. Adjusted for inflation, the gain was 2.4-fold, or 6.4 percent annually. Actually, the rate of increase was more volatile than consistent, fluctuating frequently from time to time.

Assuming an average GDP growth rate of 8 percent between 1991 and 2010, and based on the 1978-1992 consumption pattern, we project nation-wide personal consumption to keep growing at 7 percent in the next 20 years or so, reaching 1,603 yuan in 2000 and 3,153 yuan in 2010, all in constant prices. Assuming an average annual inflation rate of 5 percent, personal consumption nationwide should reach 2,368 yuan in 2000 and 7,588 yuan in 2010. Should these figures pan out, they will represent increases of 2.3-fold and 9.5-fold, respectively, over the consumption level of 723 yuan in 1990.

B. Peasants' consumption level. Peasant consumption rose from 132 yuan in 1978 to 639 yuan in 1992, up 3.8-fold, or 11.9 percent each year on the average. Adjusted for inflation, the gain was 2.2-fold, or 5.8 percent annually on the average. But the rate of increase fluctuated from period to period. During the Seventh Five-Year Plan, in particular, consumption growth slackened to a mere 2.2 percent annually. If peasants' consumption is accelerated by an appropriate margin to bring it roughly in line with the rate at which consumption rises nationwide (7 percent), it should reach 1,098 yuan by 2000 and 2160 yuan by 2010, or 1,622 yuan by 2000 and 5,198 yuan by 2010, assuming an annual inflation rate of 5 percent.



C. Nonpeasant personal consumption level. Non-peasant personal consumption rose from 383 yuan in 1978 to 2,009 yuan in 1992, up 4.2-fold, or 12.8 percent annually on the average. Adjusted for inflation, the gain was 2.4-fold or 6.5 percent annually on the average. The growth rate has followed an upward trend, accelerating particularly strongly in 1991 and 1992 when consumption jumped 12.9 percent. This is neither normal nor sustainable over a long period of time. Assuming an annual increase rate of 7 percent, non-peasant personal consumption should be 3,452 yuan by 2000 and 6,790 yuan by 2010. Factoring in an annual inflation rate of 5 percent, non-peasant personal consumption should be 5,100 yuan by 2000 and 16,341 yuan by 2010.

D. Miscellaneous factors holding down consumption. When all is said and done, it is the economic growth rate that determines the speed at which consumption expands. Between 1979 and 1992, China's GDP rose 9 percent each year on the average and its national income expanded 8.8 percent annually, a brisk pace no doubt. We expect the growth momentum to remain strong between 1990 and 2010, with both the GDP and national income increasing 8 percent or so each year.

The accumulation rate is another major determinant of the consumption level. In the 15 years since 1978, the accumulation rate by and large held steady between 28 and 36 percent. It is not expected to fall below 34 percent in the next 17 years.

Personal consumption level is also determined by the rate of population growth. Projections in this article are made on the assumption that the population will reach 1.3 billion by 2000 and close to 1.4 billion by 2010. Given our assumptions about the rates of population growth and accumulation, the rise in personal consumption level should more or less keep pace with the increase in national income, perhaps falling behind just a tad.

Our projections about peasant consumption and non-peasant consumption also assume an improvement in the urban-rural consumption relations between 1978 and 1992. Because non-peasant consumption rose more rapidly than its peasant counterpart between 1978 and 1992, the gap between the consumption level of workers and peasants has shown a widening trend. To ensure shared prosperity for both urban and rural populations, it seems that this trend cannot be allowed to continue. Needless to say, it would be unrealistic to try to close the urban-rural consumption gap in the near future. We assume in this article that the two will grow in tandem in hopes of creating a balanced urban-rural consumption relationship.

## 2) Consumption Structure

The personal consumption structure in China has changed in striking ways since reform began and the open policy was introduced. The changes have the following characteristics:

A. Food consumption declined relative to overall consumption, dropping from 67.7 percent in 1978 to 56.8

percent in 1992 in the case of peasants. In 1981, food accounted for 56.7 percent of the overall consumption of the urban population. By 1992, the figure had slipped to 52.9 percent. This downward trend is in line with the universal law of human consumption.

B. Noncommodity spending has increased relative to total spending. In the case of the peasantry, it rose from 2.7 percent in 1978 to 8.7 percent in 1982. Among the urban population, non-commodity spending rose from 8.0 percent in 1981 to 12.2 percent in 1992. This trend too reflects the general principle of human consumption.

C. Rents paid by the urban population have been abnormally low relative to overall consumption. In 1992 rents payable by the urban population accounted for a mere 0.9 percent of all spending, less than 2 percent even after adding the share of housing and building materials, which was 1 percent. This figure was extremely low. Back in 1957, the proportion was 2.32 percent; in 1964, 2.61 percent. Rents have been on a downward trend for the past 40 years, which is the uniqueness of the consumption pattern of the urban population in China.

D. Cultural consumption accounts for a very small portion of overall spending and is getting even smaller and smaller. Spending on cultural life (including spending on cultural and recreational goods, newspapers and magazines, and culture and entertainment) by urban dwellers accounted for 7.2 percent of overall consumption in 1981. Over a decade later, the proportion had dropped to 5.9 percent, a decline of 1.3 percentage points. This indicates an under-spending on cultural life.

## 3) Development of Consumption Structure: Trends and Policies

The decline in food spending relative to overall consumption will become even more striking in the next 20 years, possibly slipping to between 45 and 48 percent by 2000 and about 40 percent by 2010. The drop in food consumption can be attributed not only to the fact that people are living a moderately comfortable life, with plenty to eat and wear, but also to the fact that they are now shifting more resources to housing, health care, and cultural life, decreasing the share of food consumption. Following reform, the consumption pattern will evolve from a supply or semi-supply-based variety of consumption into a market-oriented type of consumption, with the market becoming the principal regulator of consumption. This development will necessarily compel people to devote relatively more resources to housing, health care, and culture. Housing spending is expected to reach about 10 percent in 2000 and 20 percent in 2010. These are not modest goals, so we must work hard if we are to achieve them. In order to improve China's consumption structure, we need to do more than developing agriculture and the food industry in a big way. We must also speed up the development of the civilian housing industry, the health care and insurance industry, and a range of cultural and educational undertakings. Accelerate their development as appropriate on a priority basis in order to satisfy the public demand for housing, health care, and culture.

#### 4. The Development of Agriculture and Rural Industrialization

Reform in China is now in its 15th year. During this period, China's rural economy has undergone profound changes. By transforming the rural microeconomic basis, rural reform, which essentially consisted of the household responsibility system of linking remuneration to output, gave economic development in the countryside a powerful boost, resulting in a string of bumper harvests. Then township and town enterprises suddenly emerged as a vital force in the mid-1980's and swiftly became the engine of rural economic development. Agricultural development and rural industrialization can be expected to remain the crux of rural economic development overall in the next 17 years.

##### 1) Basic Assessment of Current Agricultural Situation in China

###### A. Food has come under full-fledged market regulation.

Command planning has now been completely abolished in food production. The official monopoly on grain purchase was eliminated in 1985, replaced by contract procurement. In the years since then, the procurement base figures have declined steadily. In 1992, 100 billion yuan worth of grain were procured by contract nationwide, less than one-eighth of the total grain output that year. As of July 1993, 90 percent of the municipalities and counties in the nation had deregulated grain prices. A three-tier—national, regional, and local—grain wholesale market system had taken shape and grain enterprises too had become market-oriented across the board. By then grains, a commodity which impacts national planning and the people's livelihood, had come under full-fledged market regulation.

###### B. Peasants increased grain output but not their incomes.

Relying on market regulation alone will not automatically solve all problems facing grain production in China today. One of the most glaring problems in recent years has to do with peasants' incomes. (Nineteen eighty four and nineteen ninety were two peak years in China as far as grain production is concerned, yet peasants' incomes from grain production slumped in both years.) The slow growth and even stagnation in peasants' incomes in recent years not only directly threaten food production in rural China, but also hinders national economic development as a whole.

###### C. Adjustment of agricultural production structure an urgent matter

In a market economy increases in grain output put downward pressure on food prices. Policies and measures introduced in 1993, such as grain procurement protection prices and price ceilings on agricultural capital goods, have helped protect peasants' interests and promote the stable development of grain production. In a number of major grain-producing provinces, however, grain protection prices have dropped below market prices and the prices of agricultural capital goods keep going up despite price ceilings. On the other hand, data from the State Statistics

Bureau show that per capita grain reserve in the countryside rose 64.2 percent between 1984 and 1992, or 6.4 percent annually on the average. At the end of 1992, per capita grain reserves in rural China were up 12.8 percent from the level a year ago, a historic high. The increase in rural grain reserves does not mean that grain supply is no longer a problem in rural China. The reason is that such increase has occurred at a time when grain conversion among peasants is low, the animal husbandry industry remains underdeveloped, the share of good-quality food remains relatively small, and the grain market environment is unsound. Thus adjusting and optimizing the agricultural production structure and developing agricultural products with a high demand elasticity and income elasticity have become top priorities today.

###### D. New land system inevitable

Rural reform, which began in 1979, led to the gradual introduction of the rural land contract system all over the nation. The land contract period was originally set at 15 years. With the passage of time, the land contract period has been expiring in localities around the nation. How the rural land system is adjusted and the land contract system improved will help decide whether or not agricultural productivity can be effectively increased, scale management can be popularized in the countryside, and rural society will be stabilized, among other things, in the next 15 years.

##### 2) Basic Assessment of Progress In Rural Industrialization

###### A. Growth alternates between agriculture and the rural nonagricultural sector.

The movement of manpower, funds, and other capital goods is a critical factor influencing the rate of agricultural growth and rural industrialization. As longstanding urban-rural economic separation swelled the ranks of surplus rural workers continuously, the marginal return of the agricultural labor force declined. The fact that peasants increased their output without a corresponding rise in their incomes, a phenomenon that occurred after a bumper harvest, has further reduced the actual marginal return on agricultural labor. With the market mechanism in play, it is only inevitable for labor, funds, and other capital goods to flee agriculture for the non-agricultural sector where the comparative advantage is higher. On the other hand, though, China today remains in the preliminary stage of rural industrialization. There is low-level excessive competition between rural enterprises of similar kinds operating at the same level and the industrial structure is not mature. Add the impact of ups and downs in the national economy, and we understand why the rural non-agricultural sector, which consists primarily of rural industry, frequently exhibits signs of instability in the course of development. When township and town enterprises go out of business or find themselves in a slump, some peasants who have earlier quit agriculture for the nonagricultural sector are forced to take up farming again. This and a host of other factors cause labor, funds, and other capital goods to move back and forth between the

agricultural and non-agricultural sectors, the result of which is that these two sectors grow at an uneven pace.

B. Most funds used in developing the rural non-agricultural sector come from within rural China.

Funds for developing the rural non-agricultural sector come from a variety of channels. Enterprises, both partnerships and wholly individual-owned companies, rely primarily on self-raised funds (including personal funds and private loans). Rural collective enterprises depend mainly on self-raised funds (including collective accumulation and privately raised funds) and bank loans. There is a trend toward growing dependency on bank credit.

C. The ability of the rural nonagricultural sector to absorb workers declines even as it experiences rapid growth.

According to statistical analyses, every 1 yuan increase in the output value (constant prices) of the rural non-agricultural sector between 1979 and 1984 resulted in a 0.65 percent increase in employment. By 1988, however, the increase in employment had fallen by half to 0.32 percent. On a year-by-year basis, in the fast-growth year of 1992 the employment elasticity of the non-agricultural sector, including every industry in that sector, hit a historic low. Considering the fact that there are still over 100 million surplus workers in China, it will no longer work to rely solely on the ever-rising growth rate and capital intensity of rural industry to absorb the large army of surplus workers.

D. Worsening dissociation between rural industrialization and urbanization

There were 18,504,000 township and town enterprises in China in 1990, with a combined employment of just 92,648,000 people, averaging 5 workers per enterprise. Specifically, village-run enterprises had 21 workers each while the average township and town enterprise hired no more than 60. When township and town enterprises operate on an overly small scale and are too widely scattered, they fail to capture the benefits of concentration. The divorce between industrialization and urbanization militates against urban-rural economic interflow and will delay urban-rural economic integration in the long run.

E. The establishment of a township and town enterprise system suited to the demands of the market economy has clearly fallen behind.

Political power organs in rural China play a unique role in mobilizing local resources to build township and town enterprises. Villages are prompted to invest in and build enterprises primarily by a desire to increase the incomes of and employment opportunities for local peasants. In other words, the strongest motive is the desire to maximize welfare for the community. Hence the dualism of the operating goal of village enterprises: maximizing community welfare and maximizing enterprise earnings. Because of this dualism, rural political power organs have retained a fairly tight grip on and are prone to intervene in enterprise decision-making, particularly in major matters such as assets movement and profit distribution. There is

too close and too direct a relationship between township and town enterprises, on the one hand, and local administrative organs and community welfare, on the other. It is also an anomalous relationship. Furthermore, most rural administrative organs have no independent and regular revenue sources of their own. All these factors make for a blurred property rights relationship with township and town enterprises. The preoccupation with the welfare of workers in the community, leading to excessively rapid increases in labor costs and hurting the enterprises' own bottom line, will deliver a fatal blow to the future development of township and town enterprises in China.

3) Development of Agricultural and Nonagricultural Sectors: Trends and Thought

A. Coordinated development between agriculture and the rural non-agricultural sector

Since reform went under way a decade ago, agriculture has developed in a steady manner, bringing about the first great movement of the rural work force. Thus continuing agriculture's steady development is the cornerstone of improving the entire rural economy. However, Chinese agriculture has been of an intensive mode traditionally, with a land productivity that is already quite high and hard to improve upon on the existing basis. Meanwhile, since rural industry at its current level has limited capacity to absorb surplus rural workers, there is still hidden unemployment of a massive magnitude in the countryside all over China and agricultural productivity remains very low. Accordingly, the focus of agricultural development in the future should be on the growing of labor-intensive crops, that is, increasing effective labor inputs per unit of land; improving services before, during, and after production; and spurring sustained agricultural development by introducing a high-yield, high-quality, and high-efficiency agriculture. Even as we work to meet the basic needs of agricultural development for manpower, land, and other capital goods, we must vigorously develop rural township and town enterprises and increase social demand in the countryside so as to open up an expansive rural market for a high-yield, high-quality and high-efficiency agriculture. That way peasants' farming incomes will rise, agriculture will develop steadily, and there will be balanced development between agriculture and the non-agricultural sector.

2) The key to agricultural development is adjusting and optimizing agriculture's own internal structure.

There will be a quantum leap in the living standards of China's urban and rural populations in the 17 years between now and 2010. During this period, the food consumption structure will change in profound ways, driven largely by rising incomes in both urban and rural China. The optimization of the food structure, in turn, will significantly increase the demand of the livestock industry for feed grains. It has been calculated that feed grains account for 35.6 percent of the nation's total grain consumption in 1990. At the current growth rate, the share will rise to 50 percent or so by the year 2010. In other words, about half of the nation's grain consumption will



take place in food conversion. In 1990 per capita absolute grain was 238 kilograms. At the present decrease rate, it is projected to dip to 200 kg by the year 2010, which means that nationwide per capita grain consumption will be 400 kg. Assuming a total population of 1.4 billion by the year 2010, China's annual grain demand then will hover around 560 million tons, excluding state grain reserves. Given the current realities—shrinking farmland in the countryside and lack of enthusiasm on the part of peasants to engage in farming, the future prospects of Chinese agriculture do not look bright. To prepare for the advent of a fairly well-off society by the end of this century, therefore, we must adjust and optimize agriculture's internal structure, especially the mix of crops, as soon as possible, so as to put an end to the existing low-level supply-demand balance, even over-supply, of grains and other crops; stimulate the social demand for grains; nudge along the gradual rationalization of market grain prices; and inspire the enthusiasm of peasants to grow grains. That way we can ensure the steady and healthy development of agriculture.

3) Upgrade rural industrialization into rural nonagricultural industrialization and speed up urbanization and the transfer of surplus rural manpower into the nonagricultural sector.

Develop rural industry as an effective means to spur the development of the rural nonagricultural sector, including industries like construction, restaurant, and transportation. Compared with rural industrial enterprises, the rural nonagricultural sector is less capital-intensive and takes up less land. Accordingly, provided we develop the rural non-industrial sector in accordance with the demands of the development of rural industry, taking extra pains to concentrate its distribution, we will not only economize in the use of land but will also enhance the capacity of the entire rural nonagricultural sector to absorb surplus labor and accelerate the process of Chinese urbanization. Rural industry has now developed to a considerable size but in a widely fragmented fashion, which undermines its external economic impact and hinders its own uninterrupted development. This is a fact, but provided the state supports and guides the development of the rural tertiary industry on a policy level, a surge in urbanization in rural China is foreseeable before the end of the century. When that comes to pass, even more rural surplus workers will find their way to burgeoning small and mid-sized townships to work in the non-agricultural sector.

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#### Article Analyses Price Increases in 1st Quarter

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[Article by Pang Xiaolin (1690 2556 2651) and Zou Wenhui (6760 2429 6540): "Rapid Price Increases Create 'Grim' Situation"]

[Text] Prices continued to soar in the first quarter of 1994 on top of the big jump last year, climbing faster and faster month after month. The public's inflationary expectations also worsened. Nationwide, the commodity retail price index soared 20.1 percent in the first quarter compared with the same period last year, specifically 19 percent in January, 20.9 percent in February, and 20.2 percent in March. Household consumer prices shot up 22.3 percent in the first quarter and by March had risen 8.4 percent from the level in December, the largest increase since 1990. The 22.3 percent hike in consumer prices represented a 6.6 percentage point increase over the inflation rate of 15.7 percent recorded in the first quarter of 1993 and crossed the inflation alarm threshold of 18 percent. We were in a highly inflationary situation.

#### 1. Characteristics of Market Price Changes in First Quarter

1) Market prices increased across the board, with all commodities being affected.

Of all the types of commodities surveyed, the prices of food, services, and agricultural capital goods experienced the sharpest jump, rising 10.5 percent, 7.9 percent, and 9.6 percent, respectively, in March from last December.

A) More than anything else, it is the steep rise in food prices that drove up market prices. In the first quarter food prices soared 26.4 percent from the same period a year ago. During the same quarter the composite household consumer price level rose 13 percentage points, 58 percent of which can be attributed to the jump in food prices. In March food prices shot up a whopping 27 percent. Grain prices were up 39.3 percent in the first quarter compared with the same period in 1993, the delayed effect of the sudden spurt in grain prices last year. There were considerable differences in grain price movements from region to region, which can be summed up as "south, high; north,

low." Grain prices rose more than 50 percent in Hainan, Hubei, Jiangxi, Guizhou, and Anhui in March compared with March 1993 and were up 49.3 percent in Guangdong. The increases were more moderate in north China. In March grain prices rose 17.9 percent in Shanxi and 16.8 percent in Inner Mongolia.

As grain prices rose, so did those of meat, poultry, and their processed products, which climbed 27.9 percent in the first quarter from the level a year ago and jumped another 28.8 percent in March.

In cities across the nation, more and more land which used to be planted with vegetables have in recent times been appropriated for other uses, leading to a drop in the area sown to vegetables and a widening gap between supply and demand. The surge in vegetable prices has shown no signs of abating. In the first quarter the prices of fresh vegetables in cities across the nation rose 43.6 percent from the same period a year ago, specifically 42.9 percent in the nation's 35 large- and medium-sized cities, with a handful of cities reporting even more dramatic increases.

B) A strong upward trend in service charges and the costs of residential commodities. An array of changes was introduced and the increases were substantial, prompting numerous complaints from members of the public. Service charges jumped 27.7 percent in the first quarter compared with the first quarter in 1993. By March service charges had risen 7.9 percent from the level in December. The charges of residential commodities rose 28.4 percent in the first quarter, more than any other category of consumer prices. Rents and water and electric charges were all up sharply, rising 46.7 percent, 36.6 percent, 25.2 percent, respectively, in March compared with the corresponding period in the previous year.

According to the survey, freight charges were adjusted upward repeatedly across the nation in the first quarter, by a whopping 60-70 percent in Harbin, for instance. Furthermore, school tuition and miscellaneous fees have proliferated and all have gone up by wide margins. Baotou Shi, for example, raised tuition and miscellaneous fees from 8 yuan last semester to 20 yuan in March and increased the day-care fee from 29 yuan per month to 45 yuan. Citizens have been highly critical of the practice of charging and raising fees indiscriminately.

C) The prices of agricultural capital goods have been rising rapidly, jumping 17.9 percent in the first quarter over the same period last year and 9.6 percent in March compared with December 1993.

2. On a regional basis, prices rose faster in the east than in the west. The rise was particularly steep in the 35 large and mid-sized cities.

A) Price increases have been most rapid in large- and medium-sized cities. Household consumer prices rose 24.6 percent in the first quarter in the large- and medium-sized cities compared with the corresponding period a year ago, 2.3 percentage points over and above the national average. The five cities with the steepest increases in the first

quarter are: Haikou, 34 percent; Nanjing, 30.1 percent; Qingdao, 30.1 percent; Hefei, 29.2 percent; and Dalian, 28.3 percent. The five cities with the smallest increases were Yinchuan, 20.5 percent; Xining, 20.2 percent; Lanzhou, 20.6 percent; Kunming, 14.9 percent; and Guiyang, 20.5 percent.

B) Prices have risen fastest along the southeastern coast. In comparison, increases in the southwest have been more moderate. Nationwide household consumer prices rose 22.4 percent in March compared with the same period a year ago, but there were considerable regional variations, with the southeastern coast and three municipalities directly administered by the central government having the fastest increases. For instance, prices rose 23.5 percent in Guangdong, 25.6 percent in Zhejiang, 25.2 percent in Anhui, 34.3 percent in Hainan, 25.6 percent in Beijing, 24.4 percent in Tianjin, and 22.9 percent in Shanghai. The pace was slower in the northwest and southwest. For instance, prices increased 18.9 percent in Yunnan, 19.4 percent in Ningxia, and 20.6 percent in Guizhou, all below the national average.

C) Prices rose at a similarly brisk pace in both urban and rural areas.

Consumer prices rose 24 percent and 20.5 percent in urban and rural areas, respectively, in the first quarter compared with the same period a year ago. Commodity retail prices increased 20.3 percent and 19.7 percent in urban and rural areas, respectively, in the first quarter.

D) The prices of upstream and downstream products impact one another and have been running neck and neck.

In the first quarter the ex-factory prices of upstream industrial products were up 17 percent from the same period last year. Specifically they rose 18.6 percent in January and 16.5 percent in February. Changes in the ex-factory prices of industrial products were characterized by the following: 1) The overall price level was stable with some moderate increase. The ex-factory prices of industrial products rose 0.7 percent and 1.9 percent in January and February, respectively, compared with the preceding months. 2) The rate of increase has been slowing down month after month. The rate of increase in January represented a 3.9 percentage point drop from that in the last quarter of 1993 and continued to slip 2.1 percentage points in February from the level in January. 3) The prices of articles of daily use rose sharply. The ex-factory prices of articles of daily use climbed 2.1 percent in January from the last quarter of 1993 and went up another 2 percent in February. The ex-factory prices of articles of daily use rose 12.7 percent and 14.8 percent in January and February compared with the corresponding months, respectively, last year. The rate of increase had gone up month after month. 4) The prices of some capital goods have been fluctuating. In January the prices of capital goods slipped 0.2 percent from the preceding month only to rebound 2 percent in February.

Right now the prices of industrial goods are on a clear upward curve. At a time when the differential rate policy is

being widely adopted across the nation, the surge in the prices of industrial goods no doubt drives up retail commodity prices as well.

## 2. Causes of Surge In Market Prices

### 1) Demand-driven price increases

Overall, social supply was in balance with social demand by and large, but there were imbalances affecting individual commodities. Among agricultural products, the amount of cooking oil procured fell in 1993 (down 255,000 tons from the preceding year) and was the smallest in recent years. Low reserves combined with surging demand to push up oil prices, which shot up 56.8 percent in March compared with the same month a year ago. The 1994 sugar crop output is estimated at 6.7 million tons. Add imports and commercial inventories and we have a total supply of about 8 million tons. But since domestic demand is expected to hit 8.7 million tons, we will still end up 700,000 tons short. Driven by demand, sugar prices rose 48.3 percent in March compared with the same month in 1993.

### 2) Cost-driven price increases

The government raised the prices of capital goods, including steel, crude oil, cement, and lumber in 1993, increased the procurement prices of grain and cotton, basically decontrolled grain prices, and abolished the monopoly on the buying and selling of agricultural capital goods. The prices of agricultural capital goods have been rising strongly. Both this price surge and the price reform of this year, which has resulted in sizeable gains in workers' wages, have directly boosted production costs for enterprises to varying extents and, in doing so, pushed up consumer prices as well.

### 3) The impact of irregularities in the course of tax reform

In theory, the latest round of tax reform has not added anything to the tax burden. All existing prices are tax-bearing prices. What the latest tax reform did was to adjust the different types of taxes and should not therefore drive up prices in a major way. In some localities, however, enterprises took advantage of tax reform to jack up prices by slapping on a 17 percent tax. While they profited from this practice, they also pushed up prices and created price disorder.

### 4) The impact of price adjustments

Apart from adjusting the prices of electricity and coal, the government did not make any other price adjustments in the first quarter. Be that as it may, the upward adjustment late last year of the differential between the import and sales prices and between the wholesale and retail prices of domestic electrical appliances, cigarettes, liquors, and assorted articles of daily use have had a substantial impact on prices this year. Furthermore, increases in the prices of books, newspapers, and magazines and price adjustments made by a number of local governments have also had a not insignificant impact on prices. A city in east China, for

instance, raised the prices of 255 commodities in 186 categories in January and another 381 commodities in March.

### 5) The effect of abolishing the dual-track exchange rate system

Starting 1 January 1994, the dual-track exchange rate system was abolished, resulting in a 40 percent devaluation of the renminbi. The retail prices of imported commodities shot up swiftly, briefly triggering off a round of panic purchasing targeting imported commodities like domestic electrical appliances, gold jewelry, and foreign exchange notes, and driving up market prices.

## 3. Current Price Situation: Analysis, Projections, Evaluation

### 1) Current price situation: analysis and projections

The market price situation is grim in 1994. Judging from the present condition, it would be hard to achieve the goal of limiting the rate of increase of retail prices for the entire year to below 10 percent. This is why:

A) Excessively strong investment demand. Typically about 40 percent of fixed assets investment are converted into consumption funds. The total projected social fixed assets investment for 1994 is 130 billion yuan, up 18.2 percent from the year before. Because of the diversification of key investors and the sources of investment, the projected scale of investment, quite substantial in itself, may be exceeded. When investment demand is overly strong, it pushes up consumer prices.

B) The momentum of cost-driven price increases is showing no signs of slackening off. On the one hand, the on-going surge in the ex-factory prices of industrial goods is bound to boost the prices of downstream products. On the other hand, the introduction of a civil service system in 1994 and the adoption of a new wage system by government and institutional units will boost the nation's total wages to a planned 566.8 billion yuan, a gain of 18.4 percent from the preceding year. This will drive up consumer prices in its wake.

C) Significantly delayed effects. Price increases in 1993 are projected to push up retail prices and household consumer prices by 5.5 percent and 7 percent, respectively, on a delayed basis, in 1994.

D) A string of price adjustments is scheduled for introduction. According to projections, the deregulation of the prices of coal and chemical fertilizers; increases in the prices of electricity, crude oil, and natural gas; and increases in the procurement prices of grain and cotton will raise retail prices by 4 percentage points or so. If the price increases are postponed, the upward pressure on market prices will be eased.

E) The spontaneity of market price increases cannot be underestimated. Thus far the prices of over 94 percent of consumer goods, 80 percent of capital goods, and 85



percent of farm products have been totally decontrolled. It is difficult to control post-decontrol prices on a macroeconomic level.

Irregularities which have occurred in the course of tax reform will also continue to drive up market prices to a certain extent.

Initial estimates put the increase in retail prices for the first half of this year at 15-16 percent; household consumer prices, 16-17 percent; and household consumer prices in the 35 large- and medium-sized cities, 19-22 percent.

## 2) Evaluation of current price situation

The sharp rise in market prices has put us in a highly inflationary situation, which is extremely detrimental to both the nation and its people. Nevertheless, we believe the current surge in market prices is inherent in reform deepening and in the transition to a market economy. It is also the price we must pay in exchange for a rationalized price system and fast economic growth. In macroeconomic terms, the current rate of price increase is still within the tolerable range, as mainly demonstrated in the following ways:

A) Industrial output has been growing rapidly. Industrial output continued its brisk pace of growth in the first quarter, with output and sales keeping pace with each other. Industrial output value rose 16 percent in the first quarter compared with the corresponding period a year ago. Agriculture is in good shape. Areas cultivated with grain, cotton, oil-bearing crops, and sugar crops have either held steady or risen. Given the fast pace of industrial expansion in China, it would be both difficult and unrealistic to try to hold the overall price level steady.

B) Market sales have been steady and are showing signs of picking up. Social consumer goods retail sales totaled 352.2 billion yuan in the first quarter, a real gain of 4.2 percent over the same period last year after adjusting for inflation.

C) Household incomes have been rising faster than prices. In the first quarter per capita monthly income in urban areas was 265 yuan, a real gain of 9.3 percent after adjusting for inflation. In rural areas, per capita monthly net income rose 13.1 percent in the first quarter from the corresponding period in 1993 after adjusting for inflation.

It can thus be seen that while the rate of price increases right now remains high, it is still within the tolerable range. There is no need to panic. Provided governments at all levels conscientiously act in accordance with the State Council's spirit of stabilizing prices, the momentum of skyrocketing prices will certainly be checked. On the other hand, we should also realize that the excessively rapid increase in the prices of basic daily necessities and service charges in the cities has led to a decline in the standard of living of low-income urban households, something we must pay full attention to.

(Writer's work unit: urban adjustment general team, State Statistical Bureau)

## Article Warns of Inflation, Stimulating Economy

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3 Aug 94 p 1

[Article by Yang Jisheng (2799 4949 4939): "Economy In Good Shape Despite Inflation, Factories Operating Under Capacity"]

[Text] The government has adopted a string of macroeconomic regulatory and control policies this year and last and seized the opportune moment to introduce several major pieces of reform in the fields of banking, public finance, tax, and investment. All of that has helped shape the economic situation in the first half of the year in positive ways.

## All Reforms Making Good Progress; It Takes Time To Perfect Coordination

Financial reform began in July last year. The purpose at the time was to straighten out the financial order. It turned out that what was done was nothing more than a prelude to financial reform.

These are the objectives of financial reform. First, transform the People's Bank of China into a bona fide central bank whose function is to formulate and implement a monetary policy, maintain a stable currency, and exercise supervision over financial institutions. Second, turn specialized banks into genuine commercial banks. Toward that end, we must first set up policy-oriented banks and hive off from specialized banks their policy-related operations. Commercial banks should only make loans of a commercial nature. Third, establish a sound financial market. Progress is being made on all these fronts.

A notable result of financial reform is that financial chaos has been checked and the renminbi has stabilized. The renminbi was changing hands at the rate of \$1:11 yuan in June 1993 and was tottering on the brink of a sharp devaluation. What saved the currency from a free fall was macroeconomic regulation and control last year. The abolition of the dual exchange rate has succeeded in stabilizing the renminbi at \$1:8.7 yuan or thereabout. As a matter of fact, the currency has slightly risen in value lately. The abolition of the dual exchange rate system has helped boost exports and held down imports, so that China's foreign exchange reserves now have a 9-month payment capability. (Typically a three-month payment capability is regarded as sufficient.)

Fiscal reform has two components. One is tax reform—turning what used to be a crazy quilt of disparate tax systems into a nationally unified and standardized tax system. In the past there were over 60 tax rates for the product tax. In their place now is a uniform value-added-tax. This has created a level playing field.

The second component of fiscal reform is the introduction of tax separation between the central government and local governments. The local financial contract system, in effect for the past several years, has played an important role in mobilizing local enthusiasm for economic development

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but is also fraught with problems. It has caused economic separatism between the regions and hindered the development of a unified socialist market. It also tends to produce inter-regional convergence in industrial structure, which works against the exploitation of each region's special strengths. It results in project-overlapping and prevents the judicious utilization of resources. Replacing financial contracting with tax separation can eliminate the above-mentioned weaknesses. Another important function of tax separation is to close the central government's budget deficit over time. Since reform began 15 years ago, the central government has been running a deficit in its budget every year except for one when it had a small surplus. The deficits were caused by many reasons, including this critical one: the revenue of the central treasury accounts for a small proportion of total national revenue. In the opinion of authoritative figures, as long as 60 percent of total revenue is "off-limits," the central government cannot exercise control over the various "feudal lords." Yet the fact is that the central government collects just 28 percent of total national revenue, with the remainder all going to local governments. The tax separation system will gradually increase central revenue collection as a percentage of total national revenue. Certainly this is not something that can be accomplished overnight. Instead, the plan is to increase Beijing's share to 60 percent within 6 years or so in ways acceptable to the local governments. If the plan works out successfully, the budget problem that has plagued us for over a dozen years will be resolved.

The third piece of major reform adopted this year has to do with the grain trading system. For starters, grain prices were adjusted upward as appropriate to enhance peasants' enthusiasm to grow grains. That was effected smoothly on 10 June. Second, the existing 3.6 million people-strong grain buying and selling army was broken up, with hundreds of thousands of them forming the government's grain market regulation and control contingent responsible for procurement, processing, management, reserves, and keeping grain prices stable by regulating grain surpluses and shortages at all times in light of market conditions. The other two million people or so all run retail grain stores which assume sole responsibility for their own profits and losses but must comply with the relevant government laws and decrees concerning retail prices as well as price differences between wholesale and retail prices.

The several major reforms introduced this year have built a macroeconomic regulatory and control framework for the socialist market economy. There has been what must be considered good progress on all fronts. However, whatever reform that has taken place is just a start. Not everything has been achieved and a lot of hard work remains to be done over an extended period of time. For instance, as long as enterprise reform is not fully in place, the central bank will have difficulty regulating and controlling the economy using interest rates for leverage and has no choice but to keep the old method of limiting the total amount of lending. There is still a host of problems that needs to be resolved before specialized banks become bona

fide commercial banks. The financial order must be straightened out even as the financial market awaits revitalization, yet we have yet to find an ideal way to do that. Turning to fiscal and tax reform, how to fully tap initiative at both the central and the local levels is something that needs to be further explored in the course of implementation.

#### **Macroeconomic Targets Satisfactory; Microeconomic Difficulties Abound**

China's GDP rose 11.6 percent in the first half of this year on top of the 13 percent increase recorded in each of the previous two years. Fast growth of this magnitude is rare in the world today. No doubt this is a good phenomenon.

With the economy racing ahead, all macroeconomic targets are most satisfactory and some are at their best for years.

First the financial targets. The withdrawal of money from circulation has been satisfactory. Net withdrawal for the first half of the year was 8.3 billion yuan. Compared with the same period a year ago, 60 billion yuan more were withdrawn from circulation. If this trend continues, the amount of currency put into circulation this year may be down 40 to 60 billion yuan from what was originally projected.

Currency liquidity fell in the first half of the year. This means that among currency broadly defined, current deposits and cash on hand declined relatively while fixed deposits, bonds, and other assets increased. This shows rising confidence among investors but it also has resulted in a drop in at-sight demand.

Government revenue rose 26.7 percent in the first six months over the same period last year, faster than the growth in GDP. Treasury bonds were issued this year using economic methods. (They are now issued to the public at rates higher than those offered by banks at the same time and can be discounted anytime.) As a result, the target was over-fulfilled by late June. Furthermore, savings deposits at banks rose 314.6 billion yuan in the first half of the year, a clear sign that the issue of treasury bonds has not merely caused funds to be shuffled around.

The international balance of payments was in good shape. Exports have been growing faster than imports. Foreign exchange reserves have been increasing every day. Already China now ranks seventh among the world's 100-plus nations and regions in foreign exchange reserves, a feat that commands world-wide attention.

Other macroeconomic targets also have met government projections by and large. The rate of increase of capital construction investment was off 35.8 percent compared with the same period last year. The number of new projects has fallen and the investment structure has improved.

On inflation, however, we were off target. The retail price index for all society hit a high 19 percent, causing enormous difficulties for low-income workers and retirees. Still, after peaking in February, when they were up 20.9

percent over the same month a year ago, price increases began slackening off in March, April, and May before heading upward again in June as a result of the upward adjustment of grain prices. Because of the absence of new price reform measures in the second half of the year and for statistical reasons (the absence of the coattail factor, for instance), price increases should continue to slow down, but probably not to the 10 percent level proposed at the beginning.

Enterprises were faced with daunting problems in the first half of the year and there was a chorus of complaints about fund shortages. Some enterprises found that their products did not sell well. In many localities the market has emerged as a constraint on production to varying degrees. State enterprises continued to suffer extensive losses. Owing to fund shortages and insufficient market demand, some enterprises are operating under capacity or have simply suspended operations, so their workers are collecting less in wages. However, many of these workers have second jobs. "Losses inside the embankment are made good outside. Losses inside the factory are offset by the market." With the market easing the difficulties of enterprise workers in part, the social problems of enterprise idling are not as severe as rumors would have you believe.

Enterprise fund shortages are caused by several reasons. One is slow-moving products. Another is the low fund utilization rate. (It now takes 150 yuan in working capital to create 100 yuan worth of industrial output, up from 30 yuan in the past.) Yet another reason is the growing demand for funds caused by rising prices and an expanding GNP. But there are two other often-ignored factors. This year state banks have become the sole source of funds, other channels having been closed. Lending by state banks has increased by 80 billion yuan this year compared with the same period last year, not an insignificant amount. However, enterprises have been able to secure far less non-state-bank funds this year than in 1993. Besides, the interest rates on loans are far lower than the rate of inflation, which means that whoever gets a loan stands to make a profit. (Some enterprises take out a bank loan to buy treasury bonds and make money simply through the difference in interest rates.) Hence the heightened demand for loans.

There are some contradictions in the way the economy is operating these days, which need to be further investigated before a conclusion can be drawn. For instance, enterprises complain about fund shortages, yet the banks' books show that enterprise deposits have gone up sharply, with some enterprises even converting their current deposits into time deposits. Inflation is high, but people remain unperturbed. Not only is there no panic purchasing, but the market is fairly calm.

In the opinion of some economists, the various contradictions in the economy are part of the complex phenomenon that appears during the transition from a planned economy to a market economy. Authoritative figures believe that the macroeconomy is in better shape now than last year and that this favorable situation will continue.

### Control Inflation While Keeping An Eye on Market Sluggishness

Right now there are two outstanding problems in the economy: inflation and troubled enterprises.

Typically inflation and the phenomenon of enterprises operating under capacity (recession) require exactly the opposite remedy. To fight inflation, the government adopts a tight monetary policy, which will worsen the recession. On the other hand, to engineer an economic recovery, the government must ease its monetary policy, which may exacerbate inflation.

To extricate ourselves from this dilemma, the most important thing is to decide which is a bigger and more urgent problem, inflation or enterprises operating under capacity. Since there are different opinions regarding the severity of the two problems, we also differ in what we think should be done.

The price index jumped 19 percent in the first half of 1994 on top of the steep 13.2 percent increase last year. People are indeed highly critical of this state of affairs. As long as inflation is not brought under control, it would continue to disrupt reform. On the other hand, a national economy growing at a double-digit rate cannot be described as recessionary. According to a questionnaire survey on 16 provinces and municipalities by the departments in charge, enterprises that have suspended operations or are operating under capacity made up about 10 percent of all enterprises, with the former amounting to 4 percent, contrary to rumors which suggest that many state enterprises are in such plight. Other surveys show that about 50 percent of workers whose plants have suspended operations in part or in whole have received supplementary incomes of varying amounts from their second jobs. This situation shows that inflation is a more urgent problem than enterprises operating under capacity. In the short haul, therefore, we would be better off making the fight against inflation a higher priority, at the same time working hard to help enterprises cope with their problems. This is the prevailing opinion at the moment.

Some comrades note that an important reason why enterprises are operating under capacity is that they cannot adapt to the market economy. The planned economy has bred a host of enterprises dependent on state largess. A harsher environment puts pressure on enterprises to change gears; otherwise they cannot survive. When enterprises which cannot change their method of doing business go bankrupt, some people say, it is not a bad thing for the national economy. These people argue that we cannot keep pouring funds into an enterprise on demand. Instead we must analyze enterprise problems and save our funds only for those outfits whose products are in demand on the market and which are making a profit.

The most widely accepted explanation of the 19 percent jump in the retail price index is that too many bills were printed, meaning that the money supply grew too fast, between 1991 and 1992, as reflected in the prices this year and last. Other factors have been cited, such as costs.



One issue that merits our attention at present is market sluggishness. It was clear even in the first quarter that investment goods were not moving on the market. Both steel purchases and sales by materials circulation enterprises dropped 40 percent in the first 6 months, creating problems for metallurgical enterprises. There were also signs that consumer goods sales had turned soft. Of the money withdrawn by banks from circulation in the first half of the year, commodity withdrawal accounted for just 13.6 percent, 5 percentage points lower than normal. In about one-third of the localities, actual sales were lower than the same period last year after adjusting for inflation. Between January and May the production-sales ratio of industrial products was 92.8 percent (the average in the Seventh Five-Year Plan being 97.48 percent), again 5 percentage points below normal. Industrial inventories rose and the amount tied up in finished products topped 1,600 billion yuan. A number of enterprises will face the dual problem of fund shortages and soft market in the second half of the year. All we can say at the moment is that the market is weak. As for the seriousness of the problem, we have to wait and see.

An effective way to reinvigorate the market is to boost capital construction investment. However, it is inadvisable to take this tack at the moment. Fixed assets investment rose 25.2 percent in the first 6 months compared with the same period a year ago. It must not be allowed to go higher. One lesson we learned some years back is that if we pump too many funds into the economy when it is a little weak, the infusion will reappear as inflation when the economy rebounds. To pour funds into circulation now in hopes of boosting the market is to sow the seeds of inflation down the road. The dominant view is that we must continue to hold the line on the amount of lending and fixed assets investment.

### Provincial

#### Hubei as Economic Strategic Point Along Chang Jiang

94CE0662A Hong Kong TANGTAI [CONTEMPORARY]  
in Chinese No 40, 15 Jul 94 pp 65-67

[Article by Chang Min-chih (1728 2404 1807): "Hubei Province Plans To Rise Again Through Taking Advantage of the Conference on Coordinating the Economies of the Key Cities Along the Chang Jiang"]

[Text] An authoritative figure in economic circles claims that the Chang Jiang economic area will be the new growth zone of Chinese economic development in the 21st Century. The PRC State Planning Commission has recently drawn up a new "Chang Jiang Strategy Plan," proposing to invest 1 trillion RMB between now and the year 2000 in the region along the Chang Jiang, to promote the rapid development of the Chang Jiang valley economy. And Hubei Province, situated in the middle reaches of the Chang Jiang, will take advantage of the Three Gorges project for a soaring rise.

As the Chinese strategy of reform and opening advances from the coast to the interior, the Chang Jiang valley is

now becoming a brisk area of Chinese economic development. Hubei Province, located in the middle reaches of the Chang Jiang, with the advantage of the Three Gorges, is likely to play a key role in the "Conference on Coordinating the Economies of the Key Cities Along the Chang Jiang." All provinces and cities along the Chang Jiang are judging the hour and sizing up the situation, seizing the opportunities of the development of Pudong in Shanghai and the building of the Three Gorges project, promoting development through opening and union through development, steadily expanding their fields of cooperation, and building tighter lateral economic alliances, to promote the rapid and all-out development of the Chang Jiang valley economy.

#### 1 Trillion RMB To Be Invested in the Region Along the Chang Jiang

Reform, opening, and joint coordination in the Chang Jiang valley is now in its best historical situation. In the last two years, the "Chang Jiang Strategy," which China is focusing its investment priority on developing, is now actively underway, with the State Planning Commission having recently drawn up a new "Chang Jiang Strategy Plan," proposing to invest 1 trillion RMB between now and the year 2000 in the region along the Chang Jiang to promote the rapid development of the Chang Jiang valley economy. A Chang Jiang economic zone headed by Pudong Shanghai, turning on the building of the Three Gorges project, and backed by the key cities in the Chang Jiang valley, is now forming up.

The "Conference on Coordinating the Economies of the Key Cities Along the Chang Jiang" is a new joint entity formed to meet the economic development needs of the Chang Jiang valley. In the last eight-plus years, it has scored great successes in lateral cooperation and joint development: The "Chang Jiang Economic Joint Development (Group) Limited Liability Company," along with three regional corporations in Nanjing, Wuhan, and Chongqing, has gross assets of 1.5 billion yuan, now playing a key supporting role in fields, such as the Three Gorges project, the development of Pudong, and urban real estate development along the Chang Jiang; the Shanghai-centered Wuhan Economic Cooperation Zone, Chang Jiang Delta Economic Cooperation Zone, Nanjing Economic Cooperation Zone, Chongqing Economic Cooperation Zone, and the Panxi-Liupan Water Development Zone each have distinctive features, and are growing smoothly; special joint groups are permeating the Chang Jiang valley, breaking down local barriers, with the 10 of S&T, commerce and trade, commodities, banking, shipping, telecommunications, information, environmental protection, tourism, and social science now organized and in operation.

#### The Three Gorges Effect Should Be Slanted Toward the Region Along the Chang Jiang

Cities along the Chang Jiang, such as Wuhan, have made the following suggestions to the government: The state should hold a conference as soon as possible on plans for

the Chang Jiang valley, setting up a consolidated management agency to improve the leadership of the whole development of the Chang Jiang valley, by deploying resources rationally to prevent phenomena, such as duplicate construction and bullish investment; the state should draw up a uniform policy for Chang Jiang development and implement it gradually, to downplay development grades, shrink policy differences, and promote the balanced, coordinated, sustained, and rapid growth of the Chang Jiang valley economy; a Chang Jiang valley development bank should be organized to strengthen project fundraising management, which would have a money-investment multiplier effect and a chain reaction, to provide a certain percentage of low-interest and interest-free loans for poverty-relief and environmental-protection projects; the huge market impact of the Central Government's investment-orientation role in the Three Gorges project should be suitably slanted on equal terms toward the cities and regions along the Chang Jiang, to fully stimulate the initiative of the Three Gorges reservoir district and the whole valley.

#### **The Chang Jiang's Development and Opening Are Being Publicized in Film and Book**

To establish the overall image of the Chang Jiang economic zone, the cities along the Chang Jiang are going to jointly shoot in 1995 a major special TV film to publicize the Chang Jiang's development and opening, as well as compiling a *Chang Jiang Investment Guide*, and holding a regional international business-recruitment activity.

To speed up the overall growth of the Chang Jiang valley economy, the "Conference on Coordinating the Economies Along the Chang Jiang" points out in a report to the State Council that: It is suggested that the State Council set up an authoritative leadership body, as well as a planning and coordination agency with the participation of all State Council ministries and commissions and the governments of all provinces and cities in the Chang Jiang valley, to carry out overall planning and guidance for the Chang Jiang valley, as well as drawing up policy steps for the overall development of the Chang Jiang valley, to reinforce waterway dredging and environmental protection, so that the Chang Jiang valley will stand in the front ranks of the nation in the areas of economic efficiency of scale, high technology, and external orientation; the region open to the outside world needs expanded to shrink internal policy differences.

As to the utilization of advantageous terms in the Chang Jiang valley, such as land, resources, S&T, and markets, all areas should be allowed to take certain breakthrough and quite dynamic steps; fundraising channels need to be expanded, with the central bank and specialized banks setting aside definite quotas in support of regional and valley lateral-alliance projects, as well as selecting qualified cities to test stock exchanges and introduce foreign banks, and emphasizing the organization of a Chang Jiang development bank, to provide powerful funding support for the opening and development of the Chang Jiang valley.

The "Conference on Coordinating the Economies of the Key Cities Along the Chang Jiang" also suggests that the State Council pay attention to bringing the Central Government's investment-orientation role into full play, by converting the huge market impact of the Three Gorges project into a direct driving force for the economic development of the Chang Jiang valley. The production essentials needed for the Three Gorges project, such as commodities, equipment, and labor, need to be suitably slanted on equal terms to the cities and regions along the Chang Jiang that are undertaking the support mission, to arouse and bring into full play the initiative of all parties.

#### **An Eight-Province Group for the Joint Development of the Chang Jiang**

The Chang Jiang valley has rich natural resources, convenient transportation, and broad markets, with its overall economy making up one-third of China's. An authoritative figure in economic circles claims that the Chang Jiang economic zone will be China's new economic growth zone in the 21st century. In 1992, 386 large and midsize enterprises in the Chang Jiang valley jointly organized the Chang Jiang Joint Development (Group) Limited Liability Company, which was China's first eight-province/city specially large enterprise group.

As Shanghai develops and opens Pudong, streams of commodities, funds, personnel, and information are flooding from the seven provinces along the Chang Jiang into this "dragon head" of the Chang Jiang economic zone. Hubei is also taking an active part in the development of Pudong, jointly planning its joint invigoration, and observing and discussing the establishment of openings, running of enterprises, and building of projects. Pudong's first batch of projects whose construction is being participated in by the provinces and cities along the Chang Jiang, such as the Jingchu and Sichuan towers, are now under construction, with over 20 cities, such as Wuhan and Nanjing, investing in the development of tertiary industries in Pudong.

The all-out cooperation by the provinces and cities along the Chang Jiang with Shanghai, which is grounded in reciprocal advantage, mutual aid, and joint development, is sharply driving the development of the Chang Jiang economic zone. In 1993, Hubei's intercourse with Shanghai involved the transshipment of more than 2.2 million tons of materials and commodities, the import and export of 510,000 tons of goods, 432 cooperative projects, and the attraction of 26.4 million yuan of funds.

#### **The Building of a New Yichang To Serve the Greater Three Gorges**

Service to the Three Gorges construction, with a search for new economic growth sites, is another focus for all provinces and cities along the Chang Jiang, with the city of Yichang, which has the convenience of tall buildings close to the river, proposing "the building of a new Yichang to serve the greater Three Gorges," with plans for over 2,000 related service projects for the Three Gorges project. Wuhan has set off an upsurge of counterpart support for

the Three Gorges, forming 34 counterpart-support associations for the Three Gorges reservoir region, which have now completed over 60 projects, investing 83.475 million yuan in loans to the reservoir region, which will resettle over 10 million migrants.

The joint coordination of the Chang Jiang valley economy has ushered in a most favorable period. Since the opening to the outside world of Shanghai, Nantong, Yangzhou, Zhenjiang, and Nanjing, other cities along the Chang Jiang, such as Wuhan, Wuhu, Jiujiang, and Chongqing, have also been opened up. The "Chang Jiang Strategy Plan" recently drawn up by the state will invest 1 trillion yuan along the Chang Jiang to build a large group of priority projects.

The developed 20-plus cities along the Chang Jiang, such as Pudong, Nanjing, Wuhan, and Nantong, are investing in the development of tertiary industries in Pudong, such as real estate, with the city of Wanxian having become the first local city in China to enter the Waigaoqiao Duty-Free Zone in Pudong.

In support of the Three Gorges, Wuhan has invested loans topping 80 million yuan in the reservoir zone, reaching agreements on 148 support projects. Shanghai Municipality has taken 10 preferential steps to encourage municipal enterprises and institutions to set up entities in support of migrants in the Three Gorges reservoir zone.

#### **Hubei's Development Is Heavily Dependent on Pudong and the Three Gorges**

Hubei's development plans will make Pudong's development and the Three Gorges project their priority of priorities, bringing into full play the collection and radiation effects of Pudong and the Three Gorges on the Chang Jiang valley in areas, such as industry, funding, S&T, personnel, commodities, and information, to spur the development and opening of its regional economy; Hubei is actively participating in the construction of Pudong and the Three Gorges, fully developing markets to optimize its disposition of resources, and searching for linkups and breakthrough points in Pudong and the Three Gorges for reciprocal benefit and joint development; Hubei is fully exploiting the Chang Jiang valley's vast land and rich resources, making overseas connections on many levels and through diverse channels for joint investment, issuing B shares or bonds, adopting the international practice of the BOT form, and leasing, contracting and selling land, projects, or enterprises to foreign firms, to attract funds, equipment, technology, personnel, and management expertise to the Three Gorges project and the resource development of the Chang Jiang valley.

#### **Finance, Banking**

#### **Growth of Foreign Debts Implies Economic Prospects**

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29 Jul 94 p 1

[Article by Chai Mao (2693 5399): "With Foreign Debts of \$69.287 Billion in 1992 and \$83.573 Billion in 1993, What Does China's Growing Foreign Debt Illustrate?"]

[Text] \*China is increasingly able to float loans on international capital markets.

\*Overseas investors see bright prospects for the Chinese economy.

The most recent data from the State Administration of Exchange Control shows that by the end of 1993, China's foreign debt balance was \$83.573 billion, up from 1992 by \$14.286 billion, or 20.61 percent. This data shows the size of China's current foreign debt, as well as implying that an open China is doing a brisk business on international capital markets.

This foreign debt balance of \$83.573 billion means that China's foreign debt, while under control, is growing steadily, with a stronger ability to float loans on international capital markets, as well as being a reflection of China's bright economic prospects. It may be noted that on 28 July 1993, the China International Trust and Investment Corp [CITIC] floated on the U.S. market \$250 million of public debt, which was the first public debt floated by China on the U.S. market since the founding of the PRC, being China's reentry to the U.S. capital market since 82 years ago in 1911, when the Hunan-Guangdong railway bonds were floated in the U.S., showing the confidence of overseas investors in the Chinese economy's prospects.

The data shows that of this \$83.573 billion foreign debt balance, the mid- and long-term foreign debt balance is \$70.027 billion, up 19.94 percent from the end of 1992, to account for 83.79 percent of the gross foreign debt balance; the short-term foreign debt balance is \$13.546 billion, up 24.25 percent from the end of 1992, to make up 16.21 percent of the gross foreign debt balance. In this foreign debt term structure, as compared to 1992, the ratio of short-term foreign debt to the gross foreign debt balance is up 0.57 points. With the foreign debt balance growing and the repayment of capital with interest increasing, maintaining a rational ratio of mid- and long- to short-term foreign debt is of crucial significance in balancing our debt repayment to keep our repayment of capital with interest from becoming overconcentrated in certain coming years.

According to the "Interim Regulations on Foreign Debt Data Monitoring," China's foreign debt is defined as: All liabilities incurred in foreign currency with a contracted repayment obligation by organs, groups, enterprises, institutions, financial institutions, or other bodies within China with international financial institutions, foreign governments, financial institutions, enterprises, or other bodies outside of China. Accordingly, in our \$83.573 billion foreign debt balance, government debt makes up 25.59 percent, with financial institution debt at 49.5 percent, domestic enterprise debt at 13.4 percent, and FIE debt at 11.51 percent.

In 1993, China's foreign debt service ratio (the ratio of the year's repayment of foreign debt with interest to the year's gross foreign exchange earnings) was 9.7 percent, with our debt rate (the ratio of foreign debt balance to the year's gross foreign exchange earnings) at 94.52 percent, up



somewhat respectively from 1992's 7.34 percent and 90.68 percent. As the usual international measurement values are that the debt service ratio should be below or at 20 percent, with the debt rate below or at 100 percent, China's current debt service ratio and debt rate remain within the sustainable limits of state macroeconomic control.

### Shanghai Foreign Bank Presidents View Financial Reform

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[ECONOMIC REPORTER] in Chinese No 26, 4 Jul 94  
pp 3-7

[Article by special correspondent Ni Chih-k'un (0242 0037 3824): "Shanghai Foreign-Owned Bank Presidents Talk Freely About China's Financial Reform"]

[Text] China's financial reform intensified in 1994. Because of its role as China's financial center, China has always been the focus of world capital markets. In recent years, renowned financial institutions from abroad have scrambled for a beachhead here. Currently 26 foreign financial institutions have set up in Shanghai following Chinese People's Bank head office approval. Twenty-one of them are foreign-owned bank branches, one is a sole proprietorship bank, and one is a joint venture bank. Their prospects are good. Just this year, German, French, Swiss, and Singaporean foreign-owned banks have filed applications, which are awaiting Chinese People's Bank examination and approval. Reportedly, Shanghai will have approximately 50 foreign-owned banks within the year. Data from the Chinese People's Bank's Shanghai branch show that, as of March 1994, the capital of foreign-owned banks in Shanghai totaled \$2.828 billion.

In early 1994, China instituted a major reform of its foreign exchange system in which the merging of renminbi exchange rates was the main ingredient. On 18 April, the Chinese Foreign Exchange Trading Center, which serves as the country's overall interbank foreign exchange market, was formally founded. Both at home and abroad, this is regarded as an important move in the China mainland's intensification of reform and widening of the opening to the outside world. But how do foreign-owned banks regard China's financial reform? What new views do foreign-owned banks have about business in China? What new major plans do they have for taking part in the building and economic development of Shanghai? What new problems does the new foreign exchange system reform cause foreign-owned banks? What opinions do foreign-owned banks hold about Shanghai's prospects for becoming an international financial center? This newspaper's special correspondent recently had an exclusive interview with the directors of five foreign-owned Shanghai banks from the United States, Canada, France, Japan, and Hong Kong to hear their views on these questions. These five bankers were Chung Min-min [6945 2404 2404], director of America's First National City Bank; Kuo Chih-mien [6752 1807 2758], director of Britain's Chartered Bank; (R.W. Morse), director, and Kuan Yu-kuo [7070 3768 0948], deputy

director of the Royal Bank of Canada; Ku Hui-hao (Fiepco Tammes Klug), director of France's Banque de l'Indochine; and Niigaki Ryoji, deputy director of the Industrial Bank of Japan. He is grateful for their warm support. They discussed numerous valuable ideas quite freely.

### Foreign Exchange System Reform Marks a Major Step

All the bank directors said that China has taken a crucially important step in foreign exchange system and banking reform, and has created favorable conditions for development of foreign-owned bank business. Both Chung Min-min and Kuo Chih-mien believe that China has truly done a large amount of work in financial reform this year, notably the establishment of an interbank foreign exchange market, and improvement of the exchange rate formation mechanism. These actions demonstrate the determination and sincerity of China's financial authorities. Their goal is the establishment of a single, controlled exchange rate system based on market supply and demand to promote the integration of China's currency markets with the world's. The foreign-owned banks completely understand and support this. R.W. Morse said that the merger of renminbi exchange rates was itself a positive step. It helps development of the foreign-owned banks. Over the long run, it will help the renminbi become an internationally convertible currency.

Ku Hui-hao, who is a senior financial expert, has worked in banking abroad for 24 years. When he arrived in China, he was general agent for the Banque de l'Indochine's Beijing branch. He came to Shanghai in 1990. He said that at the end of the 19th century, i.e., in 1898, the Banque de l'Indochine opened for business in Shanghai. It was a very important French-owned bank in China at that time. In September 1994, its Hong Kong branch will celebrate the hundredth anniversary of its founding. Bank director Ku praised the establishment of the Chinese Foreign Exchange Trading Center. He holds a positive attitude about the new operating mechanism for Chinese foreign exchange dealings. This international commercial bank is very active in Shanghai's foreign exchange swap centers. The Banque de l'Indochine was the first foreign-owned bank to sell foreign exchange following establishment of the Foreign Exchange Trading Center. Speaking about the current simultaneous existence of a foreign exchange trading center with an interbank and a foreign exchange swap market, he suggested that the sooner the two were combined into one, the better. He said, "If the two were combined, more members could take part in this market. It would better reflect the foreign exchange market situation, and it would also better express a fair exchange rate market price."

To be sure, China's establishment of a unified, normal foreign exchange trading market is also a process of continuing improvement and advance. R.W. Morse and Kuan Yu-kuo, the director and deputy director of Canada's Royal Bank pointed out that exchange rates are an extremely sensitive issue internationally, in which speculation can occur some times. Although China's exchange rates are fairly stable right now, nevertheless, in order to avoid abnormal fluctuations in exchange rates, the country

really needs to use economic and legal methods to enhance macroeconomic regulation and control of foreign exchange and the international balance of payments. Niigaki Ryoji said: Our concern is about when China will completely decontrol the foreign exchange market to allow foreign-owned banks, units, and individuals to buy foreign exchange freely in the Foreign Exchange Trading Center. We are looking forward to early realization of this goal.

Kuo Chih-mien, director of the British Chartered Bank emphasized analysis of the present state of, and problems in, foreign-owned bank business in the context of the new financial mechanism's operation. His views were very representative of those held by the foreign-owned bank directors. The Shanghai branch of Chartered Bank was founded in 1858. Bank director Kuo is its first Chinese director in the more than 130 years since its founding. He graduated from Hong Kong Chinese University, and obtained a masters degree in economics from Manchester University in the UK. He has been bank director in Shanghai for six years.

Kuo Chih-mien had the following to say about the separation of two foreign exchange markets following foreign exchange system reform: At the present time, an interbank market in the Chinese Foreign Exchange Trading Center exists alongside a Foreign Exchange Swap Market. I understand this to be only a transitional measure for which there is a real need. Nevertheless, China should set up a unified, normal foreign exchange market as soon as possible. Therefore, every effort should be made to shorten the present transitional period.

He said that since reform of the foreign exchange system, foreign-owned bank business has been somewhat limited. We are a designated bank for some foreign exchange, but we can only do business in foreign exchange settlements. We cannot sell foreign exchange like the domestic banks. Our former foreign exchange swap business dealings on behalf of state-owned enterprises has also come to a halt. Furthermore, dealings in renminbi have not yet been decontrolled. Following abolition of foreign exchange certificates, we are unable to provide customers renminbi withholding service. Consequently, some customers have canceled their accounts. We lost some customers. They transferred to domestic banks. Our business volume declined. We hope that the foreign-owned banks will be able to become full foreign exchange designated banks so that they can compete from the same starting line with domestic commercial banks. This division into two foreign exchange markets also causes trouble for the three kinds of partially or wholly foreign-owned enterprises in balancing foreign exchange and regulating supply and demand. This is because they may participate only in the swap market but not in the foreign exchange market. The main swap market foreign exchange supplier used to be the state-owned foreign trade export-import companies, but they no longer deal with the swap markets. Instead they go directly to the banks with their foreign exchange settlement and foreign exchange sale business. This means a decrease in swap market foreign exchange suppliers. The Chinese

Foreign Exchange Center is all right only because it is able to provide sufficient foreign exchange during periods when the swap markets lack foreign exchange. A foreign trader and a transnational company that deal regularly with the Chartered Bank said the following to us following foreign exchange system reform: They worry that Chinese foreign exchange swap markets lack sufficient foreign exchange to satisfy their foreign exchange needs, and they also worry about obtaining the foreign exchange needed to repatriate profits obtained from investment. In addition, they are also very concerned about whether domestic banks will be able to provide the renminbi funding loans needed to build plant buildings after investment is made in other projects. Recently, Zhu Xiaohua [2612 1420 5478], deputy director of the Chinese People's Bank and concurrent director of the State Administration of Exchange Control, revealed the following in response to a question from bank director Kuo Chih-mien during a panel discussion following a ceremony on the founding of the Chinese Foreign Exchange Trading Center: Large amounts of foreign capital have flooded into China in recent years. Foreign exchange has increased substantially. The \$25 billion of foreign capital (contracted amount) that China brought in during 1993 will be put to use for one purpose after another during 1994. In addition, first quarter 1994 export and non-trade foreign exchange earnings have increased. Consequently, supply exceeds demand in China's foreign exchange markets today. Zhu Xiaohua said that since foreign exchange system reform, more foreign exchange has been sold than bought. The People's Bank has set up a special account to take in surplus foreign exchange. In early April, this account contained \$40 million. Whenever there is a need, the foreign exchange in this account can be put into the market to regulate supply and demand. Zhu Xiaohua's remarks allayed some of the foreign traders' fears.

#### Hopes For Decontrol of Renminbi Business

After having pushed for foreign exchange system reform, one hot spot to which foreign-owned bank financial experts pay particularly close attention is the conditions for, and the time and effect of decontrol of, foreign-owned banks renminbi business.

The foreign-owned banks responded enthusiastically to the renminbi business dealings of foreign-owned banks during a limited pilot project that the Chinese People's Bank ran in Xiamen. All five felt that this project showed that the Chinese financial control authorities had made a serious study of this matter, and that they were positive about moving ahead on it. It opened space for the invigoration of foreign-owned bank business. R.W. Morse said that the Xiamen pilot project should be regarded as a local partial trial. Its chances of spreading throughout the country were quite small. We hope that with the success of the Xiamen pilot project that Shanghai foreign-owned bank renminbi business dealings will also receive early approval. The Royal Bank of Canada anticipates that this day will arrive soon. Realistically speaking, whichever foreign-bank succeeds in obtaining permission first will be in a relatively strong position to expand its business volume and competitive position.



Chung Min-min said that although conditions are not yet ripe for foreign-owned banks to do renminbi business in China, this is bound to happen. Ultimately the problem will be solved. High-level Chinese People's Bank personalities have also referred positively to the creation of conditions on several occasions. Once conditions exist, success will follow. I hope that, in the process of trying to select foreign-owned banks, a balanced view will also be taken, full consideration given to the willingness of foreign-owned banks from all countries to take part in China's financial reform and support development of the mainland economy. This is because opening up the renminbi business for foreign-owned banks reflects fair competition in which foreign-owned banks and Chinese commercial banks start from the same starting line. It also helps establish a financial competition mechanism.

What are the advantages and disadvantages in permitting foreign-owned banks to do renminbi business? What methods are available for reference in the opening up of a country's currency dealing business to international financiers? The views of Ku Hui-hao and Niigaki Ryoji provide food for thought. Ku Hui-hao feels that domestic banks need not fear foreign bank renminbi dealings for at least two reasons: (1) In no way do foreign-owned banks possess the advantages that Chinese-owned banks possess. We can never have the enormous network for attracting savings that the local banks have. (2) Internationally, financial and trading centers such as New York, London, Paris, and Hong Kong permit foreign-owned banks to do business in local currencies. More than 100 foreign-owned banks have set up shop in Paris. They can deal in foreign currencies, including the franc, just like French financial institutions, yet their share of the French market is only 15 percent. Ku Hui-hao predicts that by the end of the present century (between 1997 and 2000), the renminbi will likely become a convertible currency on international markets. This is because we see that: (1) China is in process of setting up an orderly currency control system, and it is improving macroeconomic control over the operation of the economy and finances. It is paying close attention to rectifying the financial order. (2) China has established confidence in its currency. We are happy to see that in 1993 the Chinese central bank took a series of positive steps to make the renminbi convertible. It increased foreign exchange reserves and control over foreign exchange markets. It regulated supply and demand and held foreign exchange prices in check. It also has a correct monetary policy. He suggested that China's financial authorities might also intensify macroeconomic regulation and control, and also apply microeconomic regulation and control measures such as interest rate rediscounting.

Niigaki Ryoji suggested the following: The Chinese financial control authorities should borrow methods in general use throughout the world to try out decontrol of the interbank renminbi market for a short period. In Hong Kong, for example, banks channel Hong Kong dollars from banks having a surplus to banks having a shortage. Bank surplus Hong Kong currency is put out for short-term borrowing, and later loaned to business customers. He

believes that before opening up the renminbi to foreign-owned bank dealings, such a move is necessary.

### Active Participation in Building Shanghai

In today's world of economic dynamism in the Asia-Pacific region, China offers the most development potential. Moreover, Shanghai's economic take-off, and the improvement of its investment climate, have made a large number of transnational corporations and investment funds view Shanghai favorably. Not long ago, the United States' largest international bank, First National City Bank, moved its China headquarters from Hong Kong to Shanghai. Britain's Chartered Bank also decided in 1993 to move its United States dollar exchange business, which was formerly done in Hong Kong, to the control of its Shanghai branch. These things were done in light of the above considerations.

First National City Bank, which was founded in 1812, has a long history in China. In 1902, it established its first Asia branch in Shanghai. In the same year, it opened a Hong Kong branch. During the mid-1980s, it opened representative offices in Beijing, Shanghai, Shenzhen, Guangzhou, and Xiamen. Chung Min-min said that as America's largest international bank, we have a network of more than 3,000 banks in 94 countries and territories. We can use this advantage in taking an active part in China's economic development, and to support financial reform in Shanghai. As soon as it begins business, Citibank can move ahead in step with China's financial reform, and it can also do a large amount of real work in establishing and shaping a settlement mechanism for the Shanghai B-shares market. Right now it is the sold clearing bank for the buying and selling of Shanghai B-shares. Following founding of the Chinese Foreign Exchange Trading Center, Citibank was designated its American dollar buying and selling clearing account bank. Reportedly, this American-owned bank attracted foreign traders and investors from every country, and successfully provided finance capital for the building of China's high technology industries, energy, space navigation and petrochemical sectors. It took an active part in Shanghai municipal government construction projects, and raised capital for the Nanpu Bridge. As a leading bank, it played a part in the bank consortium loan for Jinshan Petrochemical's 300,000 ton ethylene plant. In addition, it helped in the marketing in Hong Kong and elsewhere of Shanghai corporation B and H shares, acquiring funds for investment from abroad.

As an international French commercial bank, France's Banque de l'Indochine has already provided a total of \$3 billion to finance construction projects in China. In talking about this, Ku Hui-hao felt rather proud. He feels that no other mainland city can take Shanghai's place as a financial and trade center in China. During a visit to Europe in early 1994, he gained the strong impression that numerous well-known large concerns and trans-national corporations in Europe are enormously interested in investing in Shanghai. They have taken real action. Right now, France's Rhone-Poulenc S.A., and ABB Corporation,



America's AT & T Corporation, and Switzerland's CIBA-GEIGY Chemicals are operating numerous joint ventures or sole proprietorships in the golden Pudong District, their investments topping \$110 million. Banque de l'Indochine provided services for these projects. Ku Hui-hao said that he will do everything possible to finance the building of new construction projects in Shanghai.

The Industrial Bank of Japan, which was founded in 1920, is a non-government long-term credit bank that has ample business capital as well as close ties with 200 large Japanese industrial groups. It is involved in basic industrial development projects in China, and it is also taking active part in the building of Shanghai. Niigaki Ryoji said that the Shanghai branch of the Industrial Bank of Japan was established in August 1991, and he and the bank have personally witnessed the changes in Shanghai during the past four years, particularly the swift economic growth. Consequently, the Industrial Bank wants to respond to these changes. The bank provided financing to build the Nanpu Bridge, and it provided a portion of the \$4.5 million bank consortium loan for the Outer Gaoqiao Power Plant. It also played an active part in developing Shanghai's Hongqiao District, raising money to build the National Trade Center Building there. The bank also issued American dollar-denominated bonds in Japan, Singapore, and Hong Kong for the Shanghai Investment Trust Company and the Shanghai branch of the Bank of Communications.

British Standard Chartered Bank Asia Corporation put its experience in the negotiable securities business to work to carry out diversified fund raising activities abroad for the Chinese B-shares market. As of the first quarter of 1994, it has raised a total of approximately \$598 million. In 1992, it raised more than \$310 million for the Shanghai No 2 Textile Machinery and other B-share listed companies. In 1993, it raised more than \$100 million for the Shanghai Phoenix Bicycle Corporation and other corporations. In 1994, it raised \$31.84 million for the Shanghai Steel Pipe Corporation. It also marketed H-shares for the Beiren Printing Machinery Corporation, raising HK\$230 million.

#### **Close Attention to BOT Investment Methods**

Striking progress has been made in Shanghai municipal government construction projects during the past several years, but it is facing a funds shortage. For this reason, the Shanghai Municipal Government authorities have widened channels for raising funds. Right now, they are concentrating quite a bit on the use of new BOT [Board of Trade] methods, to better use foreign capital. How can foreign-owned banks participate? What difficulties occur in actual use of this method, and how can they be dealt with?

Kuo Chih-mien's view is that from the use of foreign capital angle, the BOT investment method fits China's situation. That is because this method of raising funds to expand urban construction can yield real results. It makes a lot of sense for cooperating Chinese and foreign parties.

So how can foreign-owned banks take part in the BOT method. What sticking points exist in operation? R.W. Morse said that if BOT is to be used for project loans, guarantees must first be obtained from local Chinese banks to determine feasibility. A foreign businessman said that use of the BOT method to build a road, bridge, or industry requires a comprehensive analysis from every angle, including the character of the persons to whom the loan is being made, trouble spots, and developmental problems. Moreover, foreign-owned banks have their own set of prerequisites for making a decision about taking part in such projects. They must have in hand accurate data about an infrastructure project or factory, information such as the kinds of products produced, quality, market value, economic returns, and future prospects. It just happens that this is the kind of information we find difficult to obtain. It is also rather difficult for us to make a judgment about the scientificness, and accuracy of the data that the Chinese joint venture partner provides. Improvement in these regards would help foreign-owned banks play more of a part in building the city. R.W. Morse also admonished the following: the building of Shanghai has proceeded too quickly in recent years. I feel more moderate growth would be better. For example, all the roads and luxury apartments of recent years have been built during a period of high speed economic development. They have been built at high cost. For real estate, in particular, some years down the road, value may be at risk.

In speaking about the use of BOT, Niigaki Ryoji said that foreign-owned banks find it difficult to obtain accurate economic information and financial data about infrastructure projects. He said: Nor can we obtain land and facilities security pledges, because land cannot be used as collateral under existing Chinese policy. This adds to our difficulties in taking part. The customary practice of Japanese banks in providing credit for a construction project is not only to make an on-site survey, i.e., to conduct a complete investigation of what the industry does and how it operates, but also to check agreements and provisions regarding the supply of water, electricity, coal and other energy, which are closely related to the project. He suggested that to get foreign-owned banks to take part in BOT, a little more elastic operation would not hurt. For example, local Shanghai domestic banks might provide pledges. This is because according to the customary way that Japanese banks do things, quality credit is required so that capital and interest can be recovered upon maturity. However, foreign-owned banks in China are not acquainted with procedures and policies in these regards. Inasmuch as Chinese-owned banks better understand the actual circumstances and specific ways of operating, we depend on local bank pledges. If we are able to get a pledge from a top level national bank, so much the better. In short, the higher the ranking of a Chinese-owned bank, the greater the feasibility of its getting credit for this kind of construction project.

#### **Good Prospects for Shanghai to Become an International Financial Center**

In view of the almost daily improvement of the Shanghai financial market's size and set-up, foreign-owned bank

directors are particularly optimistic about Shanghai's prospects for becoming an international financial center. They maintain that for a time Shanghai was the financial center of the Far East. Once the Bund was a thicket of Chinese and foreign banks. It was famed as the "Wall Street of Asia." Today, with Chinese reform, opening to the outside world, and the take-off of the entire economy, and with the economic development of Shanghai itself, Shanghai is in process of reviving its former status as China's financial center. They believe deeply that as mainland China's economic reform intensifies, as the opening to the outside world widens, and as the Shanghai investment climate improves, this famous oriental city will recapture its former elan to shine once again as an Asian financial center.

The statements of R.W. Morse given below should serve as an inspiration to people inside and outside China who care about Shanghai. He said: For Shanghai to establish a position for itself as an international financial center by international standards, it will first have to have the following several basic conditions in being: (1) Daily improvement and clear-cut economic legislation as a basis for normalizing and ensuring healthy development of a socialist market economy; (2) formation of a fine supervision and control mechanism staffed with high-level talent of fine quality and versed in management; and (3) a sophisticated, smoothly functioning communications network to ensure communication with all countries of the world. He believes that Shanghai can use its foundation as a financial center of the Far East during the 1930s and 1940s, together with the Chinese Government's strong support, policy preferences, and favoring of Shanghai to achieve a position as an international financial and trade center during the foreseeable early years of the twenty-first century.

Kuo Chih-mien feels that Shanghai does not yet have the conditions in being to become an international financial center. He feels the most important problem is formation of a fair, and freely competitive market mechanism.

Will Shanghai's becoming an international financial center affect Hong Kong's position as a financial center, or might it weaken Hong Kong. Kuo Chih-mien said I cannot envisage Shanghai replacing Hong Kong as a financial center for some time to come. Hong Kong has become a financial center for geographic, human, and historical reasons. The economies of Hong Kong and Shanghai rely on each other; they complement each other very much. As the economies of the two places develop in the future, possibly a dispersal of funds and complementary strengths may occur that will provide space for very great cooperation. As we move toward the twenty-first century, prospects are that Hong Kong will be an international financial center in south China, and Shanghai will be a brand new international financial center in the middle of China.

Shanghai's economic development prospects are enticing. As the senior financial expert R.W. Morse said: "We are encouraged by Shanghai's bright prospects. Foreign-owned banks are both rooted in today and look even more toward

tomorrow. I sincerely hope to go on working in Shanghai for a long time to come, to take part in the international capital market, and to serve in building Shanghai's economy."

### Capital Shortage Caused by Reckless Tech Upgrading

94CE0730A Beijing JINRONG SHIBAO in Chinese  
28 Jul 94 p 1

[Article by Niu Yun (3662 5686), Liu Wei (0491 0251), and Chen Xuean (7115 1331 1344): "The Business Capital Shortage Caused by Investment in Technological Upgrading"]

[Text] For a long time now, the capital shortage seems to have become a perpetual topic of business conversation. What is the crux of the problem? We reporters recently investigated the investment in technological upgrading by 27 large and midsize state-owned industrial enterprises in Zhengzhou Henan, forming certain views on this matter.

The data shows that the 27 investigated enterprises have started 92 technological upgrading projects since the Seventh Five-Year Plan, for a gross investment of 2.293 billion yuan. While nearly every enterprise has at least one technological upgrading project, some have more than two.

The Zhengzhou Enamel Factory began construction on a high-grade toilet articles project at the end of 1992, planning to put it into operation at the end of 1993, for a gross investment of 31 million yuan, including 22 million yuan in bank loans. But as the project was not included in Henan's technological-upgrading plans, the bank loans could not be obtained, while the enterprise itself had not accumulated enough to take their place. So to complete its already started project, the enterprise was forced to divert working capital to make up its shortage of technological-upgrading funds. All of the 15.3 million yuan that it has now invested actually came from the diversion of regular working capital. This large-scale diversion of working capital has left normal production in a passive state, reducing the enterprise's raw materials reserves to a minimum, with a sharp increase in overdue loans, and some supply relations disrupted. While its working capital situation is already to the point where further diversion is impossible, taking the initiative to stop the project now would leave the enterprise with even heavier losses. Such "no way out" investment in technological upgrading was certainly not the case in just one of the enterprises that we investigated.

The problem of ongoing projects being dependent on bank loans for capital sources is quite severe. The data shows that in the capital sources for ongoing projects of the investigated enterprises, bank loans make up 71 percent of the gross investment, while self-financing by the enterprises themselves accounts for only 19 percent. Self financing by some enterprises is delayed until after the projects are put into operation and then still not fulfilled. A project by the #4057 Factory is a priority project in

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Henan, which was started in August 1992, and in which 31 million yuan has now been invested, all of which was bank loans. Projections show that the project is experiencing a severe capital shortage, with a fixed assets investment shortage of 29 million yuan, and no assured source for the 300 million yuan in working capital that will be needed once it is finished and put into operation. With such an existing shortage of capital for priority projects, one can just imagine what the capital shortage is like for other ordinary projects.

The establishment of technological upgrading projects by some enterprises lacks thorough investigation and demonstration, being largely reckless. In a project begun at the end of 1987 by the Zhengzhou Porcelain Plant to produce fine china, the technological mechanization was low, with poor labor productivity. Since 1990, it has lost 1.09 million yuan. The Zhengzhou Bearing Factory did not make an accurate market forecast before beginning a technological upgrading project, so that when the market changed abruptly once the project went into operation, this left the originally planned products divorced from international and domestic market demand, causing severe product overstocking, and forcing the machines to be turned off and the factory to be shut down.

Well-qualified figures in local financial circles hold that while technological upgrading is necessary, all things need to be done in "moderation" as, if they are not, they will turn into their opposites. In China's present situation of so much rushing to upgrade technology, while the aspirations may be fine, our limited material and financial resources cannot completely accommodate them. So to essentially solve the problems of inflated investment in technological upgrading and declining investment efficiency, we need to begin by controlling the scale of fixed assets investment, getting more serious about planning, so that fixed assets investments do not go even 1 fen [cent] beyond plans. The concerned sectors need to intensify their "three-considerations" examination of construction projects, to eliminate the "three-overrun" phenomenon of policies going beyond budgets, budgets overrunning estimates, and estimates exceeding investments.

To do a good job of enterprise technological upgrading, relying on increased input alone will not do, with the key being to ensure optimum quality. 1. We need to pool capital to prevent decentralization. 2. We need to focus our aim on priorities. 3. We need to insist on mostly intensive expanded reproduction, to make technical advances. And to accomplish this, quickly resolving the lack of adaptation by enterprises to a market economy, speeding up our pace of enterprise reform, clarifying enterprise property rights relations, and establishing effective restraint forces for enterprise investment, may after all be accepted as effective ways to solve our capital-shortage problem.

#### **Article Hails Foreign Investment in State Enterprises**

94CE0744B Hong Kong TZU CHING [BAUHINIA MAGAZINE] in Chinese No 6, 9 Jun 94 pp 54-56

[Article by Jiang Ke (3068 4430): "Roundup of Foreign Capital Equity Investment in Inland China"]

[Text] China's efforts to use foreign capital to bring in advanced technology from abroad reached an all time high at the end of 1993 when foreign agreements were concluded for an investment of \$111.4 billion (\$27.5 billion of which was actually used). China also ranked second in the world that year for the intake of foreign investment (the United States holding first place). Over the years, more than 170,000 foreign owned firms have invested a total of \$61.9 billion of foreign capital in China.

In addition, fundamental changes have occurred in the way in which foreign capital is invested in China. At the end of the 1970s, investment was in the form of the three kinds of import processing and compensation trade [fertilizer, fodder, and fuel]. During the 1980s, Sino-foreign joint ventures, Sino-foreign cooperative ventures, and foreign trader sole proprietorships were popular. The end of the 1980s saw a small amount of foreign investment in the transformation or contracting of low return, money-losing state-owned enterprises. This form of foreign trader investment changed very quickly into a conscious focus on state-owned enterprises having potential value, or even investment in, or purchase of, large and medium size state-owned enterprises having outstanding returns. On the other hand, during the past several years Chinese investment funds, entrepreneur funds, and entrepreneur investment corporations have set up shop abroad or in Chinese coastal cities to conduct similar investment activities. Thus, a different form of investment, namely "equity investment" has gradually become known to all.

#### **Advantages of Equity Investment**

So-called "equity investment" applies broadly to investment in nonlisted corporations through purchase, merger, and capitalization; thus, the object of investment is always the equity rights or property rights of a specific enterprises, using convertible debentures or other negotiable securities that are distinct from the already listed shares representing equity rights or property rights. Investment in equity rights rarely means a 100 percent purchase of the firm in which investment is made. Usually it consists of a partial purchase, or a controlling number of shares at most. Equity investment offers four great advantages: First, it enables the investor to obtain equity rights in the enterprise being invested in (hereinafter termed the "investment enterprise") at a price vastly lower than the market price. Second, the goals of the investor are clear, unforeseeable risks are slight, and set investment goals can be readily attained. Third is use of the enterprise's conditions in being able to make a fairly fast return on investment. At the same time, the investor can rapidly expand his own business or influence. Fourth, equity investment helps the investor rapidly establish an appropriate scale of production and the economies of scale, which enhances or improves his competitiveness in China and abroad.

The earliest appearance of equity investment in inland China was during the early 1980's in the Guangdong region. Nearly 7,000 concerns were merged or bought nationwide during the 1980's. With the advent of the



1990's, equity investment (the term "property transactions" is favored in China) picked up rapidly. In 1992, 3,000 small state-owned enterprises in 16 large- and medium-sized cities, including Beijing, Tianjin, Shanghai, Wuhan, and Guangzhou were auctioned or merged. In addition, nationally, 26 property transaction centers in these various places were involved in these transactions, and a "Chinese International Property Transactions Center" was built in Beijing. Property transactions conducted here included mergers, auctions, negotiated sales, leases, batch leasing and renovation, contractual management, subdividing, and cooperation.

In the Tianjin municipal industrial system where more than one-fourth of large- and medium-sized state-owned concerns have been combined, transformed, and revamped since the beginning of the Eighth Five-Year Plan, and plans call for an extension throughout the system of similar applicable actions during the coming several years. Furthermore, above average concerns became the Meierya Group in Hubei Province. This group bought a total of 13 concerns inside and outside the province. In 1993, this group set a new high in output value, profits, and foreign exchange earnings, edging its way into the ranks of China's largest fashionable clothing producers.

It was a Chinese-owned outfit in Hong Kong that raised the curtain on equity share investment in inland China, and large scale investment in the purchase of state-owned enterprises was the province of a Hong Kong-listed concern known as Chung-tse Investment.

In August 1992, the Chung-tse Corporation organized the "Quanzhou Zhongqiao (Group) Company Ltd.," in conjunction with the Quanzhou Municipal Government for the purchase of 36 Quanzhou enterprises. Then they merged some, changed production lines of some, renovated some, and refinanced and listed them abroad. Later on, the Chung-tse Corporation invested in some similar purchases in Hangzhou and Dalian. Now, after just a short two years, Chung-tse Corporation has purchased more than 100 concerns in China. In the spring of 1994, the Hong Kong Shell Electrical Equipment Industrial (Group) Corporation directly purchased 12 subordinate concerns of the Huabao Electrical Equipment Group in Shunde, Guangdong Province, thereby becoming the owner of the largest household electrical appliances production base in inland China.

Another classic equity investment method (particularly a form of equity investment associated with foreign countries) is the establishment abroad of investment funds. This type of fund investment, as it applies to China, usually is targeted on medium and small size Chinese concerns having potential value. Sometimes, it is a large enterprise. When a fund decides to invest in a certain concern, it usually takes over only between 20 and 40 percent of the shares, and sometimes it joins a group of investors, or simply becomes the administrator and manager. The most common forms of investment are to put up capital (i.e., to increase the firm's existing equity capital), or purchase (i.e., buying an enterprise's existing shares).

Rarely does one see a mutual exchange of shares between concerns (i.e., a fund and an enterprise holding shares in each other's institutions at a fixed value). Examples of this type of arrangement are the China Steamship Navigation Company's China Fund, and the China Fund of the Xinhong Fund.

#### **Steady Improvement in Inland China Investment Climate**

Amazingly, the foreign trader equity investment idea and the inland China property transaction concept occurred at virtually the same time. Such a coincidence is pregnant with meaning. That it occurred must be attributed not only to increasingly greater sophistication in the investment of foreign capital in China, but also the constant improvement of the inland China investment climate.

First, Chinese laws and policies on the use of foreign capital had begun to take shape. Detailed provisions existed for examinations and approvals, taxes, industry and business, foreign exchange, finance, customs, imports and exports, labor, and municipal government services. Since 1993, in particular, China has paid very close attention to the formulation, perfection, and application of laws and regulations regarding bankruptcy, accounting, the share system, and the listing and trading of securities. These have steadily provided clear-cut guidance and confidence for foreign traders' investment activities. Second, new changes have taken place in China's policies for using foreign capital. It has established policies for market exchange of funds and technology. In certain circumstances, foreign owned enterprises can largely or completely use China's markets as sales markets and sales areas. This change has resulted in numerous inland enterprises having no foreign sales possibilities becoming the objects of foreign trader interest. Third, reform of the foreign exchange control system has been underway since 1994. Abolition of dual exchange rates has helped concerns use foreign exchange. Foreign exchange trading market operations have also been updated, thereby enabling the legal conversion of the enormous renminbi profits of foreign owned enterprises into hard currency for repatriation. Fourth, the Chinese government has made public all sorts of economic, financial, and social data for a steady increase in the transparency of the Chinese economy's operating system. In particular, government agencies have improved the efficiency of their work in making use of foreign capital, and they have published their operating procedures. In addition, monitoring of the behind-the-scenes activities of listing concerns has been improved. Foreign traders receive extremely plentiful information. Finally, the number of enterprises listing on the large Shanghai and Shenzhen securities exchanges is increasing daily, and their trading procedures and trading methods are being constantly improved. In addition, various areas have set up regional securities exchange centers. These, plus the two large corporate share trading centers established in Beijing, have enabled large numbers of listing and nonlisting concerns to conduct property transactions [i.e., equity trading] for greater diversification of ways in which foreign-investors can make a return on investment.

### Each Taking What He Needs; Each Complementing the Other

Formerly, foreign investment in and purchase of Chinese state-owned enterprises, township and town enterprises, and private enterprises was unthinkable, but now it has become fashionable. If handled properly, both China and foreign investment concerns can benefit, each obtaining what it wants.

Benefits for foreign investors are obvious. With a little transformation of an existing inland China enterprise and its skilled work force, and improvement of its management, i.e., giving the enterprise a facelift, which requires less time and energy than starting a new project from scratch, a foreign trader can reduce unforeseeable risks and get twice the results from half the work. Foreign traders are then able to use the market network of the investment concerns to take over very rapidly markets for their products throughout the country. Alternatively, they may avoid the limitations on certain foreign traders entering Chinese markets by using newly created or former brands of a joint venture enterprise to gain market share. Many state-owned concerns are located in the golden section of cities where investment can bring not only a profit for the concern itself, but additional returns can be made from the development of a real estate business on the land in the factory area. Foreign investors who invest in a number of enterprises in a single area can also reduce their borrowing costs and increase their returns because, unlike local investors, they do not have to set up internal fund raising centers to raise enterprise investment funds.

After the Tianjin plywood plant, which had serious losses, obtained foreign investment, it brought in advanced production techniques and management methods to set up the Fujin Lumber Company, Inc. This company operated on market economy principles. Within two years, it was able to elbow its way into the front ranks of other Chinese firms in the same business in terms of profits earned, and it developed into one of the top 500 hundred industries in China. Subsequently, the Fujin Company continued to invest in 17 money-losing concerns in various places in north China. By transforming them in a similar fashion, it converted all of them into money makers producing remarkable returns. After Hong Kong Hsin-heng-chi International bought shares in the Harbin Bearing Plant, the plant's profits increased by more than 60 percent. After foreign investment in the Harbin Chemical Industry Thermal Power Plant, profits there increased one-fourth. Somewhat more than a year after the renowned Chung-tse Corporation's purchase of a state-owned plant in Quanzhou, the plant's profits increased 154 percent, and its growth momentum continues.

The positive significance for the Chinese partner is both social and individual. The social significance lies in money from abroad solving China's long-term capital shortage. Actual use of foreign capital during the past several years has accounted for more than 10 percent of total investment in fixed assets nationwide. The foreign exchange that foreign capital bring into the country enables China to

maintain stable foreign exchange reserves even while obtaining foreign technology and equipment. Furthermore, the advanced technology and management methods that foreign capital brings in raises production efficiency and economic returns in the same industry, and ultimately it helps increase the international competitiveness of Chinese firms. In addition, it can improve the ability of Chinese concerns to become international. The infusion of foreign capital invigorates the state-owned assets of enterprises, reflecting their value. Moreover, as a result of the efforts of joint-venture managers, the value of assets increases as the firm's returns increase. In addition, successful purchases of insolvent firms experiencing serious losses allows enterprises' fixed assets to escape damage, protects the interests of creditors, and safeguards the normal stability of the social and economic order. Finally, in order to deal with the reorganization and personnel cuts that inevitably result from foreign purchase or investment, the authorities concerned are forced to speed up the establishment of welfare and insurance mechanisms for public housing apportionment, price subsidies, municipal government construction, health care, retirement, and employment. This spurs a social division of labor and the specialization of social services, and it improves social security and also gradually reduces the government's financial investment burdens.

Significance for the individual lies in improvement and rise to varying degrees in capital, technology, management, and foreign markets for enterprises after a foreign trader or investment fund invests in them. This is particularly so for externally oriented concerns whose need for capital is just as urgent as that of internally oriented concerns. Foreign investment remedies their need for foreign exchange. In addition, should such a concern have to raise money abroad at some future time, since it has name recognition abroad, and its financial system and production management are already internationalized, it can gain foreign bank and investors consideration more readily than a B-share concern. Because the entry of foreign capital has changed and streamlined the administrative system and apportionment of equity rights, thereby helping enterprises operate truly according to the rules of a market economy, government departments have decreased administrative interference. To a certain extent, the government has also shed a heavy burden. Profits of the Chung-tse Beer Corporation in Hangzhou increased 58.5 percent, tax payments increased 24 percent, and per capita staff member and working income increased 30 percent. The investors, the government and the staff members and workers of the enterprise all gained considerable benefit from the marriage.

With proper planning, some firms making poor returns that are weighed down with responsibilities can likewise attract infusions of foreign capital. Astute foreign traders bend every effort to unearth such enterprises having inherent value and potential. A series of financial arrangements and structural readjustments can bring new vitality to these enterprises. For enterprises that have an intact market structure, in particular, whose intangible assets

(such as trademarks and good-will), and their fixed assets (such as land) have a high value and whose conditions for cooperation are low, the interest of foreign investors may be even greater. This is because one major business of foreign investment banks and finance companies in risk investment is "transforming trash into treasure." When faced with a choice between spending a lot of money on buying a firm making good returns with spending a small amount of money on buying a losing firm, they often choose the latter, feeling that it has more potential.

After foreign capital enters a firm, money is ample, and money and cost pressures are not too great. Then, various means such as technological transformation, widening of markets, mergers and amalgamation of enterprises, expansion of the economies of scale, and diversification mean greater ability to meet challenges from competition and overcome difficulties that changes in market conditions occasion. Statistics show that, as of the end of 1993, an overwhelming majority of the 2,500 firms under various forms of ownership that were transformed through the use of foreign capital attained their anticipated goals. In Jiangmen city in Guangdong, 20 of 22 share system firms, including some foreign-owned ones, increased their profits many times over, the maximum increase being 1,300 percent.

#### Levy of Personal Income Taxes Difficult

94CE0731A Beijing JINGJI CANKAO BAO in Chinese  
4 Aug 94 p 1

[Article by Wang Yinghui (3769 6601 2547): "Why Is the Levy of Personal Income Taxes So Difficult?"]

[Text] In many countries, personal income taxes have become a large source of revenues, with personal income taxes making up 45 percent of all federal tax revenue in the United States, but only 1.17 percent in China.

It would not be overdoing it at all to say that the levy [collection] of personal income taxes in China at present is still very low.

In 1993, China's industrial and commercial taxes brought in gross revenues of 359.7 billion yuan, while personal income taxes (calculated according to the new tax law) amounted to only 4.2 billion yuan, or 1.17 percent of gross revenues.

Since personal income taxes appeared in Britain in 1799, the idea that citizens must pay taxes has spread nicely in the West, to the point where taxes stand side by side with death as the two major unavoidable realities of life. On every official taxpayment day, people queue up in long snaking lines, waiting to pay their taxes. By now, personal income taxes have become the key source of revenues in Western countries, with personal income taxes in the U.S. making up 45 percent of gross federal revenues. The data shows that in China at present, more than 4.4 million people have personal incomes of over 30,000 yuan a year, with the projection being that personal income taxes ought to bring in at least more than 10 billion yuan a year. But

projected from their revenues for the first 5 months of 1994 of only 2.342 billion yuan, China's gross revenues from personal income taxes in 1994 will amount to only 5-6 billion yuan.

So it is not hard to see that the loss of personal income taxes in China is severe.

Income taxes have been levied on individuals in China for four decades. In the early days of the founding of the PRC, the "National Tax Regulations" issued by the Government Administration Council [of the Central People's Government of the PRC, replaced in 1954 by the State Council] provided for the collection of income taxes on salaries and deposit interest.

On 10 September 1980, the Fifth NPC approved the first special personal tax law since the founding of the PRC, the personal income tax law. Then the State Council promulgated in 1986 the interim regulations on personal income regulatory taxes and the interim regulations on urban and rural individual industrial and commercial household operation income taxes. In October 1993, China merged the abovementioned tax laws involving the collection of personal income taxes into the revised "PRC Personal Income Tax Law," which went into effect on 1 January 1994. But the significance of the personal income tax law is not merely to increase government revenue, but rather more importantly to use the progressive taxpayment form to achieve a fair distribution of public wealth, curb inflation, and promote social stability.

In these 14 years, our steady intensification of reform has brought a corresponding steady improvement in our tax laws. While it should be said that much publicity by tax departments and a number of sensational national "tax-payment storm" baptisms have raised the taxpayment awareness among our fellow countrymen, our current state of personal income tax collection remains far from the great expectations placed on it when we first drew up our tax laws.

As our tax collectors have worked so exceptionally hard to implement our tax laws, why is our personal income tax loss so severe? It is understood that this is due mainly to the following causes:

1. Our taxpayment awareness is hazy. Due to factors in areas, such as history, reality, and publicity and education, Chinese citizens have a very hazy taxpayment awareness, which has become the most direct obstacle to our tax collection and establishment of a new tax order. This includes psychological mindsets, such as "the state will not miss this little bit of money from me," "tax evasion is not a crime," "power is above the law," and a lack of understanding as to "why the government levies taxes."

2. Our incomes have become more diversified and covert. Except for wages, other income is essentially out of control. It is hard for tax organs to learn the income status of every individual. The proxy deduction and payment system practiced by payment units is very imperfect. For instance, while personal income taxes ought to be collected on



interest income from the individual purchase of enterprise bonds, with the tax law providing that they should be deducted and paid by proxy by the units that pay interest, all areas generally report that these payment units perform their proxy deduction and payment duties poorly, causing large tax losses. For instance, Beijing data show that while 46.512 million yuan in taxes should have been paid on the interest from mature bonds in the two years of 1991 and 1992, only 3.35 million yuan was actually deducted and paid.

3. Local party and government organs interfere with enforcement too much. A certain prefecture in Shandong Province held a flowers and plants festival in 1993, in which 15 performers received 276,000 yuan in acting fees, with one famous leading actor charging 20,000 yuan a performance, while the sponsors did not deduct or pay by proxy any personal income taxes, and the performers did not pay any taxes. When the provincial tax department went to investigate this matter, the local government turned it away with the excuse that "these people will not come again if we make them pay tax!" Certain localities, on the pretext of speeding up their economic development, arbitrarily accommodate tax law provisions, opening up unauthorized tax reduction and exemption loopholes beyond their jurisdiction.

4. Tax departments have internal problems: Collection methods are backward, making it very hard for tax departments to learn personal income situations; tax organs do not have the authority to impound material objects [pay received in kind] from individuals for sizeable taxpayments, causing an exceptionally widespread phenomenon in our society today of the use of in-kind [material] rewards to evade taxes; collection forces are inadequate, with over 14 million individual industrial and commercial household operations throughout China at present, leaving one tax collector to handle ordinarily 200 and as many as 300-400 of them, and the difficulty in doing this generally and strictly quite obvious; penalties are unclear and weak. For instance, 80 percent of personal income taxes are handled through proxy deduction and payment, while those that do not perform this duty are hard to penalize.

To bring our personal income tax collection out of its current awkward plight, we need to make efforts in two areas: 1) we need to cultivate a national taxpayment awareness in line with our socialist market economy; 2) we need to maintain the solemnity of our tax laws, making them more intimidating.

- We need to make publicity about and teaching of our tax laws a longstanding and continuous job, to raise our citizens' awareness of conscientious taxpayment.
- Aimed at the state of "penalties being too light to hurt," we need to speed up the improvement of our tax legislation, making heavier penalties for tax evasion. We need to severely sanction tax evaders and resisters and those who do not perform their proxy deduction and payment duties.
- We need to maintain the solemnity and uniformity of our tax laws, firmly stopping localities from arbitrarily

accommodating tax-law provisions and overstepping their authority to grant tax reductions and exemptions. All sectors need to cooperate in tax work, to create a good collection climate.

- We need to draw on overseas experience, exploring new collection means. For instance, we need to provide in legal form that bank deposits use real names. Developed zones should experiment as soon as possible with introducing computerized collection.
- Tax departments need to improve their collection methods, improving their proxy deduction and payment system and their taxpayment declaration system, and reinforcing collection at the source to prevent tax loss.

### PBC Official Hails Bank Law Draft

94CE0730B Beijing JINRONG SHIBAO in Chinese  
29 Jul 94 p 1

[Report by Mei Zhixiang (2734 1807 5046) on interview with PBC Legal Department Director Wei Shenghong (7614 4141 7703) on China's first general banking law: "Putting China's Banking Profession Onto a Legal Track"; place, date, and occasion not given]

[Text] After 15 years, China's first national banking law—the "PRC PBC Law (Draft)," is finally completed, and has been submitted to the Eighth Standing Committee of the Eighth NPC for examination and approval. What is the guiding legislative ideology of this general law? What is its major framework? And what is its key substance? These were the questions about which I interviewed PBC Legal Department Director Wei Shenghong.

Wei Shenghong says that: The PBC Law, or the central banking law, is an important one for stabilizing our currency, reinforcing banking oversight, improving and tightening state macroeconomic regulation and control, and ensuring the smooth implementation of banking-system reform. This law was drafted mainly to meet the needs of establishing a socialist market economy system, by putting banking management, reform, and system establishment per se, just like other economic fields, onto a legal track. Its objectives are to establish the position, functions, and roles of the central bank in the socialist market economy system based on the demands of general socialist economic laws, using legal means to ensure that the PBC plays the macroeconomic regulation and control role of a central bank through independent formulation, implementation of monetary policy, and stronger banking oversight, and ensuring that our banking system operates stably, safely, and effectively, to better play a promotional role in banking support of economic development, and to better safeguard the legitimate rights and interests of depositors.

Wei Shenghong briefed me as follows: This central banking law covers the limits of the central bank's nature, status, and role, legal regulations on its internal organization, and the basic substance of our national currency laws. In these three parts, the law (draft) has 46 articles in the eight

sections of general rules (delimiting the PBC's nature, status, role, and key functions), organizational organs, RMB (legal tender delimitation, units, printing, circulation, and violation penalties), services (extending to central bank functions), relations with concerned parties (ensuring that the central bank, under State Council leadership, is independently formulated and implements monetary policy without intervention by any other unit or local government), banking oversight (examination and approval, auditing, investigation, and punishment of financial institutions), financial accounting (practicing an independent budget system), and supplementary articles (implementation times).

As to this general banking law, Wei Shenghong sums up its three features: 1) it is a law that specially sets central bank functions, obligations, and status, granting jurisdiction through law, and adjusting central bank relations with government, other government departments, groups, and commercial banks, but not involving the relations among other banks; 2) it is a quite complete central banking law, with central bank and currency law substance, as well as organizational substance; 3) it draws on the substance of central banking laws in developed countries that are of use to us, combining them with China's realities, fixing in law effective rules and regulations that are in or about to go into effect, and making provisions on certain forward-looking services that are not now being provided but are predicted to certainly need done so in future, such as the management of state gold and foreign exchange reserves.

As to the relations between this central banking law and the "Commercial Banking Law" that is now being drafted, Wei Shenghong says that: These two laws are both general Chinese laws, not having a subordinate relationship of parent to subsidiary, but rather having different respective adjustment relations, and being parallel, mutually complementary, and mutually delimited. Certain provisions of the central banking law, such as particular oversight methods, are detailed in the "Commercial Banking Law," where they are stipulated. It could be said that the central banking law guides the "Commercial Banking Law," with these two laws making up the legal grounds for the banking world's status, activities, and management, and both the central bank and commercial banks needing to engage in operating activities and pursue their own legitimate rights and interests based on their respective laws.

Wei Shenghong finally places particular emphasis on the urgency of implementing the central banking law as quickly as possible. He holds that: While the "PRC Interim Regulations on Banking Management" that were published by the State Council on 7 January 1986 played a certain positive role in ensuring PBC leadership and managing our national banking profession, our intensification of banking reform has left certain provisions in these regulations no longer suited to developing circumstances. Certain articles in the central banking law are very directed and practical. For instance, the delimitation of the relations of the PBC with other administrative organs and local governments ensures that the PBC can independently

perform its functions without interference; the banking oversight functions granted to the PBC, such as examination, approval, and investigation of financial institutions, help to preserve good and normal banking order; the provisions on investigating and affixing the legal liability in accordance with law for counterfeiting or undermining the RMB were put in to protect the people's interests, by cracking down on such crime. Thus, implementing the central banking law as quickly as possible will ensure that the PBC formulates and implements monetary policy scientifically and authoritatively, ensuring the firm operation of our banking system, to promote the sound growth of our national economy.

## Industry

### July Statistics on Output of Mechano-Electronic Products

HK3108133194 Beijing CEI Database in English  
31 Aug 94

[Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in July 1994, released by the State Statistical Bureau:

Item	Unit	7/94	7/93
Power equipment	10,000kw	127.14	36.90
AC motor	10,000kw	393.99	527.51
Industrial boiler	ton	6578.54	8471.00
Machine tool	10,000set	1.63	2.14
Including:			
NC machine tool	set	377.00	696
Precision Machine tool	set	68	126
Large machine tool	set	229	426
Automobile	10,000	11.38	11.19
Including:			
Bus	10,000	1.23	0.88
Car	10,000	2.19	2.19
Truck	10,000	5.22	5.12
Motorbike	10,000	38.59	29.37
Tractor(20hp/above)	10,000	0.34	0.26
Small tractor	10,000	8.06	4.95
Locomotive	set	78	82
Including:			
Diesel	set	63	60
Steam	set	2	4
Electric	set	13	18
Passenger coach	set	145	124
Freight wagon	set	3072	2860
Internal combustion engine	10,000kw	967.68	869.40
Fishing ship			26
Civil steel ship	10,000ton	19.11	23.49

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Computer	set	40	8
Micro computer	set	11488	10181
Color crt	10,000	104.89	93.48
Program-controlled switch-board	10,000set	98.75	93.48

### Statistics on Output of Light Industry in July

HK3108133394 Beijing CEI Database in English  
31 Aug 94

[Text] Beijing (CEIS)—Following is a list of the output of China's light industry in July 1994, released by the State Statistical Bureau:

Item	Unit	7/94	7/93
Bicycle	10,000s	300.20	351.60
Sewing machine	10,000s	59.73	64.33
Watch	10,000	2251.29	752.79
Camera	10,000s	508.14	64.28
TV set	10,000s	194.82	203.25
ColorTV	10,000s	99.02	100.24
Video recorder	10,000s	15.82	5.00
Radio	10,000s	195.81	281.76
Tape recorder	10,000s	454.40	185.48
Hi-fi	10,000pc	51.59	31.35
Washing machine	10,000s	84.54	78.10
Electric fan	10,000s	771.75	597.16
Refrigerator	10,000s	70.69	72.18
Freezer	10,000s	12.57	14.59
Air conditioner	10,000s	48.46	39.56
Vacuum cleaner	10,000s	9.63	8.11
Electric cooker	10,000s	141.97	154.13
Sugar	10,000t	0.82	1.99
Salt	10,000t	179.94	210.78
Cigarettes	10,000c	278.70	245.47
Beer	10,000t	163.93	152.13
Liquor	10,000t	37.70	34.79
Canned food	10,000t	12.57	15.21
Dairy products	t	38037.30	34756
Feed	10,000t	243.49	208.97
Machine-madeandkraft	10,000t	139.79	132.24
Newsprint	10,000t	5.41	4.94
Relief printing paper	10,000t	5.27	4.87
Synthetic detergent	10,000t	16.02	14.73
Daily fine aluminium products	t	4865.13	5949.00
Plastic products	10,000t	42.56	35.62
Farming film	10,000t	2.52	2.05

Notes: s—set, pc—piece, t—ton, c—carton, m pc—million piece

### Statistics on Output of Main Chemical Products in July

HK3108133094 Beijing CEI Database in English  
31 Aug 94

[Text] Beijing (CEIS)—Following is a list of the output of main chemical products in July 1994, released by the State Statistical Bureau:

Item	Unit	7/94	7/93
Chemical fiber	10,000t	20.81	16.13
Sulphuric acid	10,000t	17.81	13.83
Dense nitric acid	10,000t	3.00	2.30
Soda ash	10,000t	41.94	41.49
Caustic soda	10,000t	35.89	33.12
Ethylene	10,000t	16.51	14.06
Calcium chloride	10,000t	23.21	22.76
Pure benzene	10,000t	6.34	5.99
Synthetic ammonia	10,000t	199.06	183.93
Chemical fertilizer	10,000t	201.09	180.99
(Nitrogen)	10,000t	155.73	134.62
(Phosphorous)	10,000t	58.63	47.39
(Potash)	10,000t	2.03	1.19
Chemical pesticide	10,000t	2.56	2.26
Paint	10,000t	8.45	8.13
Dyestuff	10,000t	1.27	1.63
Chinese patent medicines	10,000t	2.50	1.96
Tires	10,000pc	538.60	534.77
Synthetic rubber	10,000t	3.53	2.82
Film	10,000m	796.00	154
(Color film)	10,000m	796.00	74
Plastics	10,000t	27.20	25.34

Notes: t - ton, pc - piece, m - meter

### Industrial Output Value for Aug, by Area

HK2309114894 Beijing CEI Database in English 23 Sep 94

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in August 1994 released by the State Statistical Bureau:

Area	(Unit: 100 million yuan)		
	8/94	8/93	change over 8/93 (pc)
National total	3463.40	2864.21	20.9
Beijing	97.66	81.38	20.0
Tianjin	83.56	71.94	16.2
Hebei	119.60	106.68	12.1
Shanxi	55.92	49.44	13.1
InnerMongolia	29.68	27.05	9.7

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Liaoning	180.91	166.16	8.9
Jilin	59.74	51.84	15.2
Heilongjiang	76.77	76.95	-0.2
Shanghai	242.95	214.82	13.1
Jiangsu	506.87	386.03	31.3
Zhejiang	266.46	205.99	29.4
Anhui	105.09	78.08	34.6
Fujian	90.03	71.50	25.9
Jiangxi	60.71	48.17	26.0
Shandong	335.78	252.93	31.3
Henan	129.55	104.05	24.5
Hubei	140.01	119.74	16.9
Hunan	82.00	73.91	10.9
Guangdong	379.66	308.21	23.2
Guangxi	52.52	47.62	10.3
Hainan	5.96	6.35	-6.1
Sichuan	166.10	138.51	19.9
Guizhou	26.32	24.03	9.5
Yunnan	45.57	38.84	17.3
Tibet	-	0.31	-
Shaanxi	51.44	47.36	8.6
Gansu	32.56	30.20	7.8
Qinghai	6.95	6.12	13.6
Ningxia	8.82	8.05	9.6
Xinjiang	23.81	21.95	8.5

Note: Industrial output value in 1994 is measured in 1990's constant yuan.

**Light Industrial Output Value for Aug, by Area**  
HK2309114994 Beijing CEI Database in English  
23 Sep 94

[Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in August 1994 released by the State Statistical Bureau:

(Unit: 100 million yuan)			
Area	8/94	8/93	change over 8/93 (pc)
Total	1655.79	1320.85	25.4
Beijing	38.84	32.11	21.0
Tianjin	37.56	30.19	24.4
Hebei	48.32	42.45	13.8
Shanxi	9.85	9.79	0.6
Inner Mongolia	10.98	9.44	16.3
Liaoning	51.19	43.20	18.5
Jilin	19.36	18.38	5.3
Heilongjiang	24.29	21.85	11.2

Shanghai	111.51	92.61	20.4
Jiangsu	259.94	194.36	33.7
Zhejiang	173.70	133.31	30.3
Anhui	53.53	39.53	35.4
Fujian	57.47	44.60	28.9
Jiangxi	26.91	21.29	26.4
Shandong	171.30	125.43	36.6
Henan	57.66	45.77	26.0
Hubei	60.05	45.87	30.9
Hunan	33.88	30.83	30.9
Guangdong	248.75	202.52	22.8
Guangxi	24.64	20.86	18.1
Hainan	3.86	3.92	-1.5
Sichuan	63.93	51.67	23.7
Guizhou	8.39	7.22	16.2
Yunnan	22.41	18.67	20.0
Tibet	-	0.09	-
Shaanxi	17.73	16.80	5.5
Gansu	6.89	6.51	5.8
Qinghai	1.61	1.51	6.6
Ningxia	1.57	1.62	-3.1
Xinjiang	9.55	8.45	13.0

**Industrial Sales Value for Aug, by Area**  
HK2309115294 Beijing CEI Database in English  
23 Sep 94

[Text] Beijing (CEIS)—Following is a list of the industrial sales value (measured in the 1990 constant price) by areas in China in August 1994, released by the State Statistical Bureau:

(Unit: 100 million yuan)			
Area	8/94	8/93	change over 8/93 (pc)
Total	3326.47	2695.44	23.4
Beijing	95.03	74.41	27.7
Tianjin	90.02	67.39	33.6
Hebei	115.09	103.17	11.6
Shanxi	51.39	47.30	8.6
Inner Mongolia	28.82	25.58	12.7
Liaoning	170.64	154.50	10.4
Jilin	55.25	49.81	10.9
Heilongjiang	72.67	74.64	-2.6
Shanghai	233.62	208.57	12.0
Jiangsu	474.42	356.55	33.1
Zhejiang	252.26	192.92	30.8
Anhui	100.30	73.27	36.9

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Fujian	86.79	67.64	28.3
Jiangxi	56.63	45.38	24.8
Shandong	327.44	231.82	39.1
Henan	127.56	98.84	29.1
Hubei	138.63	113.32	22.3
Hunan	79.03	70.84	11.6
Guangdong	364.99	293.52	24.3
Guangxi	50.87	45.38	12.1
Hainan	5.73	5.49	4.4
Sichuan	162.57	130.80	24.3
Guizhou	25.08	22.16	13.2
Yunnan	44.34	36.47	21.6
Tibet	-	0.23	-
Shaanxi	50.36	43.89	14.7
Gansu	30.15	27.65	9.0
Qinghai	6.26	5.50	13.8
Ningxia	8.25	7.82	5.5
Xinjiang	21.97	20.58	6.8

**Light Industrial Sales Value for Aug, by Area**  
*HK2309115494 Beijing CEI Database in English*  
23 Sep 94

[Text] Beijing (CEIS)—Following is a list of light industrial sales value by areas in China in August 1994 released by the State Statistical Bureau:

Area	(Unit: 100 million yuan)		
	8/94	8/93	change over 8/93 (%)
Total	1599.57	1263.04	26.6
Beijing	37.47	30.37	23.4
Tianjin	39.47	29.49	33.8
Hebei	47.73	42.86	11.4
Shanxi	9.56	9.68	-1.2
Inner Mongolia	9.57	8.36	14.5
Liaoning	48.96	40.45	21.0
Jilin	18.85	17.83	4.2
Heilongjiang	23.10	21.25	8.7
Shanghai	105.69	91.23	15.9
Jiangsu	243.46	182.83	33.2
Zhejiang	165.40	125.48	31.8
Anhui	51.07	37.72	35.4
Fujian	55.29	42.31	30.7
Jiangxi	25.16	19.54	28.8
Shandong	169.56	117.64	44.1
Henan	58.03	44.32	30.9
Hubei	57.12	42.51	31.3

Hunan	32.94	29.77	10.6
Guangdong	241.11	195.83	23.1
Guangxi	24.75	20.78	19.1
Hainan	3.73	3.40	9.7
Sichuan	64.50	49.72	29.7
Guizhou	8.08	6.74	19.9
Yunnan	22.91	18.82	21.7
Tibet	-	0.07	-
Shaanxi	18.06	15.93	13.4
Gansu	6.14	6.42	-4.4
Qinghai	1.38	1.20	15.0
Ningxia	1.59	1.57	1.3
Xinjiang	9.07	7.92	14.5

**Foreign Trade, Investment**

**Beneficial Role of Foreign Investment Hailed**

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[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Sun Jiaheng (1327 1367 1854), Foreign Economic Relations and Trade University: "Cursory Analysis of the Development of Enterprises in Which Foreign Traders Have Invested and Their Position and Role in China's Foreign Trade"]

[Text] China has scored remarkable achievement in the importation of foreign capital, technology, and sophisticated management experience since its adoption of a policy of reform and opening to the outside world. Of all the ways of using foreign capital, direct foreign investment is the one that China uses most. This expresses in concrete terms China's movement toward an open economy and its participation in the international division of labor. Practice shows that the building of enterprises with foreign investment has given powerful impetus to the development of China's national economy and foreign trade. Today, enterprises in which foreign traders have invested are an indispensable integral part of China's diverse economic make-up. Their position and role in the country's foreign trade is becoming increasingly important. They already accounts for one-third of the country's import-export volume. This volume is on a par with that produced by the country's foreign trade corporations, combination industry and trade corporations, and enterprises having foreign trade business rights. It has become, one of the main forces on the front line of the country's foreign trade. Therefore, understanding and studying the development of enterprises in which foreign traders invest and their position and role in China's foreign trade holds major significance.

**1. Development of Foreign Trader Investment Enterprises**

The Third Plenary Session of the 11th Party Central Committee inaugurated the important policy of opening to

the outside world. It made use of foreign capital to accelerate economic construction a major ingredient in China's opening to the outside world. During the 15 years since promulgation in July 1979 of the "People's Republic of China Sino-Foreign Joint Venture Business Law," a total of 174,000 foreign trader investment projects have been approved, more than \$220 billion in foreign funds negotiated, and \$60 billion actually been used.

China's use of foreign trader investment may be roughly divided into four stages as follows:

The first stage (from 1979 through 1982) was the pioneering stage. During this period, only a beginning was made in bringing in foreign trader investment. The number of projects in which foreign traders invested and the amount of money they invested was not great. During this 4 year period, a total of 922 foreign trader investment projects were approved; \$6.012 billion in foreign capital was negotiated, and \$1.168 billion in foreign capital was actually used.

The second stage (1983 through 1986) was an adjustment and development stage. During this period, the country gradually perfected applicable legislation, delegated examination and approval authority, and improved the investment climate to promote steady growth of foreign trader investment. During this 4 year period, 6,897 foreign trader investment projects were approved; \$13.147 billion of foreign capital was negotiated, and \$5.426 billion was actually invested for a substantial increase over the previous 4 years.

The third stage (1987 through 1991) was a high speed growth stage during which China offered foreign investors more preferential policies. The investment climate also improved further. During this five-year period, 34,208 foreign trader investment projects were approved, 33.15 billion in foreign capital was negotiated, and \$16.681 billion was actually used.

The fourth stage (from 1992 to the present) was one of sustained, rapid, and healthy development. Following the remarks of Deng Xiaoping during his travels in south China during early 1992, in particular, new impetus toward rapid development appeared in China's opening to the outside world and its use of foreign capital. In 1992, more than 48,000 foreign trader investment projects were approved, \$58.1 billion in foreign capital was negotiated, and \$11.16 billion was actually used. The number of foreign trader investment projects approved and the amount of foreign capital negotiated during this single year alone was greater than the total for the previous 13 years of reform and opening to the outside world. Another high point in foreign trader investment occurred during 1993 when more than 83,000 foreign trader investment projects were approved nationwide, \$110.9 billion in foreign capital was negotiated, and \$25.8 billion in foreign capital was actually used. This was a respective 70, 90 and 134 percent increase over the previous year.

Let us now make a brief analysis of direct foreign investment from several different angles:

(1) *Analysis by source*, shows invested foreign capital coming from more than 230 countries and territories, including Hong Kong, Macao, and Taiwan, which hold first place (62 percent), Japan in second place (11 percent), the United States (9 percent), and the EU countries.

(2) *Analysis in terms of regional distribution of foreign capital*, shows foreign trader investment concentrated mostly in the special economic zones, and in coastal areas opened to the outside world. In recent years, inland areas have also seen substantial inputs of foreign capital. In 1991, foreign trader investment projects in inland provinces and cities was less than 10 percent of the national total. By 1992, this figure had increased to more than 20 percent. Today foreign trader investment has begun to extend inland and diffuse into township and town enterprises. For example, township and town contractual joint venture enterprises have accounted during the past one year for one-half of all the new joint venture enterprises in the two Chang Jiang Delta provinces of Jiangsu and Zhejiang. Three kinds of partially or wholly foreign-owned enterprises have also mushroomed in inland mountain regions of Fujian Province.

(3) *Analysis in terms of businesses and industries in which foreign investments have been made* shows hotels and restaurants in first place. China's improvement of its former investment climate played a very great role in this. After 1985, however, as China began to guide the direction of foreign investment, the percentage of foreign trader investment in production projects gradually increased, reaching 76 percent in 1986 and 85 percent in 1987. After 1988, the percentage was about 90 percent. With the emphasis in recent years on the development of tertiary industries, investment in service industry projects has increased.

Foreign trader investment in industry is concentrated primarily in electric power and energy projects, and secondarily in light industry, electronics, machinery, textiles, and clothing. About 60 percent of these industrial projects are in labor-intensive and ordinary assembly business firms. This shows that China's plentiful and cheap labor holds powerful attraction for foreign traders. It also shows that the level at which China uses foreign capital is still not high. The gradual increase in China's manpower costs, the steady rise in prices of raw and processed materials, and the increasing decline in labor productivity rates of recent years have tended to weaken the comparative advantage that China formerly enjoyed. This should be cause for serious concern. Among tertiary industries, the not very great foreign trader investment in agricultural development projects and export-oriented foreign exchange earning agriculture is also a matter that merits attention.

(4) *Analysis in terms of foreign investment firms involved* shows that up until 1990, mostly medium and small foreign concerns invested in China. The most remarkable change in recent years is has been investment by one after another world-renowned large corporations and American, European, and Japanese trans-national corporations such as Du Pont, IBM, 3M, Foxboro, (Kabote), (Kaili), and Wang



*Computers in the United States, Britain's (Pierdun), (Gaoteshi), and BOC, Japan's Mitsubishi, (Oumulong) and NEC Electric, France's ELF-Aquitaine, and Dutch Shell. Moreover, investment in optical crystals, integrated circuits, computer software, biological engineering, and such high-tech industries is on the rise.*

(5) *Analysis in terms of forms of investment* shows foreign traders invest mostly in three kinds of partially or wholly foreign-owned enterprises, 65 percent of which are Sino-foreign joint venture enterprises, 18.5 percent of which are Sino-foreign cooperative enterprises, and 16.4 percent of which are foreign trader sole proprietorship enterprises. Sino-foreign cooperative development enterprises account for only 0.1 percent. New forms of investment have steadily appeared with development of three kinds of partially or wholly foreign-owned enterprises. Right now, the hottest form of investment is share system corporations. Among three kinds of partially or wholly foreign-owned enterprises, China has approved more than 70 share system enterprises. Some state-owned enterprises have instituted share system operation through the issuance of B shares or H shares. Some foreign traders are looking into the founding of BOT, i.e., build-operate-transfer enterprises. This system is used mostly for foreign investment in the building of infrastructure such as power stations, highways, railroads, and wharves. After they are built, the foreign investors administer and manage such enterprises, but turn them over to China within a fixed period. In addition, some foreign traders make investment arrangements using various kinds of funds, syndicates, or trust companies. Judging from the trend, future foreign trader forms of investment will be increasingly varied.

## 2. Position and Role of Foreign Trader Investment Enterprises in China's Foreign Trade

The rapid development of foreign trader investment enterprises fully attests to China's achievements in attracting direct foreign investment under guidance of an overall plan for reform and opening to the outside world, which have attracted world-wide attention. Furthermore, the position and role of the three kinds of partially or wholly foreign-owned enterprises in China's foreign trade is becoming increasingly important.

### (1) *Steady Expansion of Foreign Trader Investment Enterprises' Import-Export Trade, Which Has Become a Steadily Rising Percentage of the Country's Total Imports and Exports*

In 1984, exports of the three kinds of partially or wholly foreign-owned enterprises still amounted to less than \$100 million. In 1985, exports increased to \$300 million, or two times over. Each year between 1985 and 1989 exports increased manifold. For 1990 and 1991, the increase was 50 percent of more, and for 1992 and 1993, it was about 45 percent. At the same time, the volume of three kinds of partially or wholly foreign-owned enterprise-produced exports rose from 1.1 percent of the country's total exports in 1985 to 27.5 percent in 1993. In some places such as

Guangdong and Shenzhen, they reached as much as 80 percent. Overall, the three kinds of partially or wholly foreign-owned enterprises have become an important force in China's export trade (See Table below)

**Increase and Percentage of Exports From the Three Kinds of Partially or Wholly Foreign-Owned Enterprises From 1985 Through 1993. Units: \$100 Million**

Year	Enterprise-Managed Exports	Percent Increase Over Previous Year	Percentage of Total Exports
1984	0.7	-	-
1985	3	328	1.1
1986	5.8	93	2.0
1987	12.2	110	3.5
1988	24.6	101	6.1
1989	49.2	100	11.3
1990	78.1	59	15.0
1991	120.5	54	16.7
1992	173.6	44	20.4
1993	252.4	45	27.5

Source of Data: Calculations based on "Chinese Foreign Economic Relations and Trade Policy Guide," by Liu Xiangdong [0491 0686 2639], Economic Administration Press, 1993; Figures for 1993 based on Chinese Customs statistics.

As the number of investment projects have increased and the volume of exports has expanded, the import-export trade of three kinds of partially or wholly foreign-owned enterprises has shown a rather ferocious growth momentum. In 1992, imports totaled \$26.39 billion, up 56 percent from the previous year and accounting for 32.8 percent of the country's total imports. In 1993, import volume was \$41.83 billion, up 58.5 percent from the previous year, and accounting for 40.2 percent of the country's total imports.

Imports of the three kinds of partially or wholly foreign-owned enterprises were greater than exports, imports counterbalancing exports and producing a \$16.59 billion adverse balance in 1993. Nevertheless since imports consisted mostly of imported machinery and equipment for investment, and of materials and parts to be processed for export or for the production of products to be sold internally, if imports for investment are deducted, the adverse foreign trade balance decreases, or imports and exports generally balance. In 1993, \$16.63 billion of foreign trader investment enterprise exports were for equipment and materials used for investment, nicely compensating the adverse balance for the year.

Steady growth in the imports and exports of the three kinds of partially or wholly foreign-owned enterprises powered development of the country's open economy, spurred growth of the entire national economy and foreign trade, and promoted improvement of the country's foreign exchange balance. As a result of foreign exchange swaps,

the three kinds of partially or wholly foreign-owned enterprises substantially balanced foreign exchange receipts and expenditures, producing some surplus. Statistics show a net \$1.65 billion expenditure by the three kinds of partially or wholly foreign-owned enterprises after counterbalancing foreign exchange earnings against expenditures in 1991, a net \$2.42 billion expenditure in 1992, and a net \$5.16 billion expenditure for the first 11 months of 1993. Meanwhile, the more than 70,000 three kinds of partially or wholly foreign-owned enterprises that went into production during this period directly employed more than 9 million people, and in 1993 national tax revenues from foreign sources (not including Customs duties and land fees) amounted to more than 20 billion. This also played a very great role in increasing the country's employment and fiscal revenues.

*(2) Appropriateness of the Make-up of Commodity Imports and Exports of Foreign Trader Investment Enterprises Promotes Improvement of the Make-up of the Whole Country's Foreign Trade*

Improvement of the make-up of a country's imports and exports is the key to improvement of economic returns from foreign trade. Right now, China must expand exports of industrial manufactures to increase imports of sophisticated machinery and technology. In this sense, the make-up of the imports and exports of three kinds of partially or wholly foreign-owned enterprises is rather ideal. Exports of the three kinds of partially or wholly foreign-owned enterprises are predominantly industrial manufactures. In recent years, exports of industrial goods have accounted for an average of more than 90 percent of the total exports of the three kinds of partially or wholly foreign-owned enterprises nationwide. In 1993, it was 93 percent, a substantial percentage of which was machinery and electrical equipment, which accounted for 37 percent of the country's total machinery and electrical equipment exports.

The main machinery and electrical equipment exports of the three kinds of partially or wholly foreign-owned enterprises are as follows: tape recorders, audio components, television sets, telephones, electric motors, wristwatches, bicycles, computers, cameras, telecommunications equipment parts, and shipping containers. In addition, as was said earlier, the imports of the three kinds of partially or wholly foreign-owned enterprises consist mostly of machinery and electrical equipment. This import-export structure plays a positive role in accelerating modernization of the country's economy, and in improving the structure of the country's imports and exports.

*(3) Imports of Sophisticated Technology To Promote Readjustment of the Industrial Structure* The importation of large amounts of sophisticated applied technology and equipment by the country's foreign trader investment enterprises fills a technological void in some of the country's exporting industries. It hastens the technological transformation, the replacement of equipment, and the upgrading and updating of the export products of export

enterprises. Thus, it promotes readjustment and optimization of the structure of export industries.

China has also applied foreign trader investment to the technological transformation of numerous existing enterprises, particularly to the motor vehicle, elevator, and computer industries. Importation of sophisticated technology has permitted a several decade advance in the technology of some enterprises. Quite a few products have replaced imports, and some have developed into important exports. In addition, some production oriented joint ventures have been able to import technology dynamically through technology transfers. As a result, technology in these enterprises has developed at the same rate as in other countries of the world. This has stimulated, in turn, steady advances in the technology of associated industries. A Beijing survey report states that more than 80 percent of the three kinds of partially or wholly foreign-owned enterprises that have come on stream in the industrial system have imported sophisticated foreign technology. One-third of them have reached the newest international level and their influence is radiating to other enterprises. One example is the Beijing Jeep Motor Car Company, which has imported nearly 3,000 dynamically sophisticated pieces of technology since it began operation. Their application has promoted the technological transformation of more than 500 affiliated enterprises, thereby spurring technological progress throughout the industry. Another example is the Beijing Matsushita color television tube, and the Beijing Phillips joint venture enterprises, whose importation of technology has advanced the development of industrial technology by 20 to 30 years. The products of these companies have already entered international markets, and they are strongly competitive.

From the economics point of view, to import foreign capital is to import productivity. Practice has shown that positive and effective use of direct foreign investment helps develop productivity, helps make up for the shortage of capital for national construction, and increases both national strength and export competitiveness. It helps enrich domestic markets and it improves the people's standard of living. To a certain extent, the founding and development of three kinds of partially or wholly foreign-owned enterprises have changed the country's industrial structure and the old pattern of regional development. It has also permitted the country to focus on the nurture of leading industries and the transformation of traditional industries, and to make advances in the development of new and high technology industries.

*(4) Importation of Sophisticated Management Experience Promotes Reform of Foreign Trade Enterprises*

Effective linking together of all the key elements of productivity requires scientific management. This demonstrates the crucial importance of scientific management in freeing productivity.

Since foreigners play a direct role in the administration and management of the three kinds of partially or wholly foreign-owned enterprises, these enterprises have spurred

the development of new organizational forms, new operating methods, and new enterprise management systems. In relations between government administration and enterprise management, financial accounting, the personnel assignment system, and marketing, they employ methods that differ from traditional "Chinese models." For example, they use group optimization within enterprises to get rid of "iron rice bowls, iron armchairs, and iron wages" [guaranteed employment, perquisites, and pay parity]. They practice independent accounting and responsibility for ones own profits and losses in finance, and they put highly effective people in charge of their organization who emphasize results. They are flexible in the hiring and assignment of personnel. They go looking for talent. They stress administration according to law and use of the law to run their plants. They watch market changes very closely, and they emphasize quality and after-sales services. They set great store by contracts and their reputation, etc. This imbues enterprises with vigorous and competitive operating concepts and mechanisms, which have played a definite role as models for the transformation of the operating mechanisms of our own foreign trade, combination industry and trade, and state-owned companies.

*(5) Establishment of a Human Resources Competition Mechanism To Help Season and Nurture Foreign Trade Talent*

In the final analysis, international trade competition comes down to competition in human talent. The three kinds of partially or wholly foreign-owned enterprises human resources competition mechanism imposes strict demands for and fosters staff member and worker quality. When both Chinese and foreign personnel jointly operate and manage an enterprise, this causes the Chinese personnel to gain through practice both modern administration and management awareness, and operating experience. It helps China temper and train up people skilled in foreign economic relations and trade. At the same time, three kinds of partially or wholly foreign-owned enterprises have strict quality requirements for human talent. Before they take up a position, personnel generally have to undergo professional training, and the principle of survival of the fittest and assignment of personnel according to their abilities is followed. This competition mechanism matures China's foreign economic relations and trade talent. A superb staff employee and worker corps in which people do well in training, understand both a foreign language and foreign trade, and are able to manage both a domestic enterprise and an enterprise in which foreigners are involved is taking shape and growing stronger. Henceforth, foreign capital and foreign trade must be more closely linked, and this will require, in turn, the earliest possible creation and training of a staff employee and worker corps that can develop foreign economic relations and trade.

*(1) Close Economic and Trade Relations With Taiwan, Hong Kong, and Macao To Promote Quadripartite Economic Cooperation Across the Taiwan Strait.*

Active efforts to obtain investment from, Taiwan, Hong Kong, and Macao opens broad vistas for expanding quadripartite economic and trade cooperation and exchanges between both sides of the Taiwan Strait. It holds major political significance as well. Investment of large amounts of Taiwan capital in the mainland provides a powerful stimulus for accelerating progress with the Three Opens [Chinese mainland suggested policy for the opening of postal, trade, and navigational ties with Taiwan], and unification of the motherland: Hong Kong, Macao, and Taiwan close relations with inland China will create favorable conditions for the 1997 and 1999 peaceful transition.

Right now, China is doing very well in using foreign capital. A World Bank report says that China was the country having the greatest inflow of foreign capital in 1993, the total amounting to nearly \$27 billion, including \$15 billion in direct foreign investment. This was one-fourth the total amount of foreign capital flowing into developing countries. Currently, most foreign trader investment enterprises are operating well. Their labor productivity rate is steadily rising, their profits are increasing, and they exhibit rather strong vitality. As China's use of foreign capital expands, foreign trader investment enterprises will be bound to play an ever large role in China's national economy and foreign trade.

**Fujian Governor Urges Attracting Investors**

94CE0737A Fuzhou FUJIAN RIBAO in Chinese  
7 Aug 94 p 1

[Article by Chen Mingyi (7115 2494 5030), Governor of Fujian Province: "Further Exploit Fujian's Strengths To Attract More Foreign and Taiwan Capital"]

[Text] Fujian is one of the first provinces on the mainland to open itself up to the outside world. After 15 years' practice, Fujian has achieved striking success in attracting foreign and Taiwan capital, developing an export-oriented economy, and promoting Fujian-Taiwan economic and trade cooperation and exchanges. How Fujian proposes to further improve its position and boost foreign and Taiwan investment to a new high in the new situation has profound significance for the sustained, rapid, and healthy development of its economy.

**Opportunities, Challenges For Foreign Capital Utilization**

Since reform began and the open policy went under way, Fujian has worked hard putting the central government's various preferential policies to good use and taking advantage of the resources of overseas Chinese in Taiwan and Hong Kong. It has absorbed foreign capital in a host of ways, admitting many players to diverse fields, and launched trade and economic cooperation with Taiwan. The scale of foreign and Taiwan investment in Fujian has been growing steadily, even doubling in recent years. Instead of being concentrated to the usual processing industry, as in the past, foreign and Taiwan investment in Fujian is now branching out into the raw material industry, the infrastructure, and experimental agriculture. It is also shifting from labor-intensive to capital- and



technology-intensive projects. There has been a considerable increase in the number of Taiwan and foreign-funded large-scale real estate projects. Much progress has also been made in the development of the tertiary industry. More and more large companies and syndicates are investing in Fujian. Fujian-Taiwan trade and the development of the Taiwan investment zone have constantly been scaling new heights. As of late 1993, a total of 12,800 foreign-funded enterprises with a combined contracted value of \$22.5 billion in foreign capital had been approved by Fujian. The amount of capital actually utilized was \$6 billion and 5,700 enterprises have already opened for business. Almost 3,000 Taiwan-funded projects have been approved. Their combined contracted value was \$4 billion and the amount of Taiwan capital actually utilized was \$1.7 billion. Fujian-Taiwan trade stands at \$4.4 billion. The boom in foreign and Taiwan investment in Fujian has fostered new economic growth points, optimized the industrial structure, enhanced its economic muscle, and spurred the development of an export-oriented economy.

Today Taiwan's drive to utilize even more foreign capital faces a grim challenge as well as an excellent opportunity. The world is getting more and more interdependent economically, their supplementary and mutually beneficial economic ties becoming closer and closer. The Asian Pacific economy is booming. The adjustment of the industrial structure within Taiwan is accelerating and the dates when Hong Kong and Macao will be returned to the motherland are fast approaching. All this provides more opportunities for Fujian to participate in international economic cooperation more extensively and deeply. Political and social stability, economic development, and international harmony on the mainland all favor the expansion of the open policy. Fifteen years after reform began and the open policy was introduced, Fujian is open to the outside world across the board at all levels. It has also laid a solid foundation for utilization of even more foreign and Taiwan capital by nurturing a market system and drawing up rules and regulations for it. For the moment, however, the infrastructure in Fujian needs to be built up and the investment climate must be made better still. Toward that end, we must redouble our confidence and develop new strengths to keep and further the momentum for utilizing foreign and Taiwan capital.

#### Accelerate Infrastructural Development; Further Improve Investment Climate

During 15 years of reform and openness, Fujian has spent over 30 billion yuan to fund a host of transportation, energy, communications, and other infrastructural projects, vastly improving the investment climate. Because of rapid economic growth, however, there is still a severe shortage of electricity and the transportation system remains under a good deal of strains, which has a substantial negative impact on the operations and production of Taiwan and foreign-funded enterprises. To preserve Fujian's edge in attracting Taiwan and foreign capital, the key is to speed up infrastructural development and work hard to improve the investment climate for Taiwan and

foreign investors. Accelerating the development of the infrastructure, such as energy, transportation, and communications, not only is the basis for economic development but also environmentally ensures foreign and Taiwan investment. In the next few years, therefore, Fujian will mobilize all resources to build up its infrastructure. First, speed up harbor, wharf, and airport construction. Complete the construction of Changle International Airport in Fuzhou as soon as possible. Expand Gaoqi International Airport in Xiamen. Wrap up Phase 2 of the Dongdugang project in Xiamen and the Xingangqu project in Fuzhou. Accelerate the construction of wharves on the north and south shores of Meizhouwan, at the harbor in Zhangzhou, and at Songxiagang in Fuzhou so that they can be completed and put into service within 2 years. Speed up land transportation development. Accelerate the full-fledged construction of Zhangzhou-Quanzhou-Xiao Railroad, Hengnan Railroad, and Fuzhou-Quanzhou-Xiamen-Zhaoan Expressway. Widen the Fuzhou-Xiamen Expressway to four lanes wide and 18 meters long within the year. Complete the construction of 2,600 kilometers of highways, including four national highways and one provincial highway. Third, accelerate electric power development. The plan is to spend 50 billion yuan in the next 7 years to build 14 large and mid-sized electric projects. Go all out to increase installed capacity to over 1 million kilowatts. After these infrastructural projects are completed, the strains on transportation and energy in Fujian will be further eased.

Even as we accelerate infrastructural construction, we must work hard to improve the intangible investment climate and make Fujian even more attractive to Taiwan and foreign investors. First of all, accelerate the development of a socialist market economy in Fujian. Stimulate structural reform across the board in every field, including finance, fiscal and tax systems, foreign exchange, investment, and foreign trade. Nurture an economic climate favorable to foreign and Taiwan investment and conducive to integrating Fujian with established international practices. Second, further simplify investment examination and approval procedures. Enhance efficiency. Introduce a registration system for all projects that encourage investment. Introduce a joint examination and approval method for major investment projects to make the procedure less time-consuming. Convene major investment projects coordinating meetings regularly to solve the various problems that may occur in the course of implementing a project. Make decision-making more scientific and our operations more transparent. We should operate in an open, fair, and impartial manner to make foreign and Taiwan investors feel confident and satisfied. Third, step up rule-making and work out local legislation. Formulate and improve rules and regulations with Fujian characteristics to regulate foreign economic relations. Develop policies that encourage Taiwan and foreign businessmen to invest in infrastructural projects, in basic industries, and in basic agriculture. Make sure that all preferential policies are fully implemented. Fourth, take practical steps to protect the legitimate rights and interests of Taiwan and

foreign investors. Establish a foreign and Taiwan-funded enterprise arbitration body. Create a service network to handle complaints from foreign and Taiwan investors and expeditiously deal with any issue that a foreign investor has complained about. Cases in which their legitimate rights and interests have been infringed upon must be handled promptly in accordance with the law.

#### Vigorously Pursue Deeper Economic, Trade Cooperation with Taiwan

Linked by a strip of water, Taiwan and Fujian are uniquely placed to cooperate with each other in economic matters and trade. Fujian must continue to exploit its advantages in geography, resources, science and technology, market, and manpower. Even as it works hard to make existing Taiwan-funded enterprises a success and continue to attract large and mid-sized Taiwan-funded projects, it must make a special effort to woo Taiwan's financial consortia and big corporations. In accordance with the principle of "giving everybody preferential treatment and liberalizing as appropriate," it should encourage Taiwan companies to invest in the infrastructure, basic industries, basic agriculture, and the transformation of old enterprises and old cities, or to jointly undertake the opening up of the international market. It should encourage trade groups from Taiwan representing the petrochemical, textile, computer, and machinery industries to visit Fujian to hold business talks with their Fujian counterparts. In the past, investment was excluded from some fields. In a move to liberalize that policy properly, now applications to invest in the above-mentioned fields will be examined and approved on a case-by-case basis. Coastal cities like Fuzhou, Xiamen, and Quanzhou with a heavy concentration of Taiwan-funded firms and a relatively mature market mechanism, for instance, may allow the establishment of one or two Taiwan-funded retail enterprises on a trial basis. Financially open cities like Xiamen and Fuzhou too may allow a couple of Taiwan-funded banks or financial companies to open their doors.

After several years of development, agricultural cooperation and exchanges between Fujian and Taiwan have laid

a good foundation and grown to a substantial scale. This year we must continue to explore new ways to bring about agricultural cooperation with Taiwan, such as utilizing Taiwan capital to set up a "Fujian-Taiwan comprehensive agricultural development and marketing center" and adopting an integrated model of operation featuring the introduction of fine varieties in isolation, the popularization of planting, multiple processing, and domestic and overseas marketing. Taiwan firms which want to invest in the opening up of desolate mountains, or in high-yield, high-quality, and high-efficiency agricultural projects should be given extra convenience and preferences. Taiwan companies which introduce and popularize improved varieties and advanced technology or which have made outstanding contributions to the development and improvement of Taiwan's agricultural production and technology should be specially rewarded by the government.

#### Proposals To Boost Stagnating Sino-Singapore Trade

94CE0668A Hong Kong NAN PEI CHI [NORTH AND SOUTH POLES] in Chinese No 289, 18 Jul 94  
pp 37-39

[Article by Qi Xiaohang (7871 2556 5300): "New Strategy Needed To Boost Sino-Singapore Trade"]

[Text] China has not made the list of Singapore's top ten trading partners mainly because its high added value products and high-tech merchandise remain shut out of that market. The key to expanding Sino-Singapore trade lies in changing the industrial structure, increasing the exports of cotton textile and electrical machinery products, and launching service trade.

Singapore is an important trading partner for China, its fifth largest in Asia after Hong Kong, Taiwan, Japan, and South Korea. Singapore also is the fifth largest investor in China. However, Sino-Singapore trade has been stagnant in the past few years. Why? Let us identify the reasons by examining Singapore's foreign trade in the last several years.

#### 1. Singapore Imports in Recent Years (See Table 1)

Table 1. Major Suppliers of Singapore's Imports

##### Market Shares Of Nations and Regions (%)

	1986	1987	1988	1989	1990	1991
Japan	19.9	20.5	21.9	21.3	20.2	21.3
United States	15.0	14.7	15.5	17.1	16.0	15.8
Malaysia	13.3	13.8	14.7	13.2	13.6	15.2
Saudi Arabia	2.5	4.1	4.4	4.8	5.3	5.1
Taiwan	4.0	4.6	4.5	4.5	4.3	4.1
Germany	3.3	3.4	3.7	3.6	3.6	3.2
China	-	-	3.8	3.4	3.4	3.4
Britain	3.4	3.2	2.9	2.8	3.1	2.9
Hong Kong	2.4	2.6	2.8	2.8	2.9	3.0

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Table 1. Major Suppliers of Singapore's Imports (Continued)

Market Shares Of Nations and Regions (%)

	1986	1987	1988	1989	1990	1991
South Korea	2.3	2.7	2.9	3.0	3.1	2.8
Thailand	2.9	3.1	2.7	2.5	2.7	3.2
Others	29.3	25.4	22.0	22.7	19.9	20.0

EIU, "Country Profile-Singapore," 1992-1993

We can see from the table above that three countries—Japan, the United States, and Malaysia—alone account for 52.3 percent of Singapore's total merchandise imports. In contrast, imports from China have held steady at 3.4

percent ever since 1989, less than one-sixth of what Singapore has been buying from Japan and 0.9 percentage points below Singapore's imports from Taiwan.

2. Singapore Exports in Recent Years (See Table 2)

Table 2. Major Markets For Singapore Exports—Percentages of Singapore Exports Absorbed By Major Markets

	1986	1987	1988	1989	1990	1991
United States	23.4	24.4	23.8	23.3	21.3	19.7
Malaysia	14.8	14.2	13.6	13.7	13.1	15.0
Japan	8.6	9.0	8.6	8.5	8.7	8.7
Thailand	3.6	4.2	5.5	5.5	6.6	6.3
Hong Kong	6.5	6.3	6.3	6.3	6.5	7.2
Germany	2.3	3.2	3.5	3.7	4.0	4.2
Taiwan	-	-	2.8	3.0	3.6	3.6
Britain	2.8	2.8	2.9	3.4	3.2	3.0
Australia	3.1	2.7	2.7	2.9	2.5	2.5
South Korea	1.4	2.0	2.0	1.9	2.2	2.4
Others	33.7	31.2	28.3	27.8	28.3	27.4

EIU, "Country Profile-Singapore," 1992-1993

According to the data, the United States, Malaysia, and Japan are the leading markets for Singapore exports. In contrast, China is not even on the list of Singapore's top 10 markets.

As the data above show, Japan, the United States, and Malaysia are the largest markets for Singapore exports as well as the top suppliers of its imports. Thus the United States, Japan, and Malaysia are Singapore's trading "buddies" (a mainland colloquialism meaning friends). Although Singapore is the fifth largest investor in China and is treated as a "buddy" by the mainland, it cannot be considered a "buddy" judging from bilateral trade figures.

Mainland China has pursued an open policy energetically in recent years, making steady improvements in its foreign trade management system and going all out to develop foreign trade, especially in the Asia-Pacific region. How can China establish a "buddy" trading relationship with Singapore?

While macroeconomic regulation and control is essential, we believe it is even more important to change the mix of

China's exports to Singapore. "Know the enemy and know yourself, and you can fight a hundred battles with no danger of defeat." If China wants to develop its trading relationship with Singapore, it must understand the mix of Singapore's exports and imports.

According to statistics, 50.3 percent of Singapore's commodity imports in 1990 consisted of machinery and transportation equipment. In addition, it imported from Japan iron and steel, chemical products, and scientific equipment, which accounted for 40.7 percent, 17.1 percent, and 23.7 percent, respectively, of Singapore's total imports in those categories. In the same year machinery accounted for 66.3 percent of all U.S. exports to Singapore while Malaysia's exports to Singapore worth a total of \$14.96 billion [Singaporean dollars] were dominated by machinery, transportation equipment, food, and petroleum.

We can thus see that Singapore mainly imports machinery, transportation equipment, chemical products, apparatus, food, and petroleum. What are China's principal merchandise exports to Singapore?

3. China's Merchandise Exports to Singapore (See Table 3)



**Table 3. Major Chinese Exports to Singapore in 1992 As Percentages of Total Chinese Exports By Value**

Commodity	Amount(dollar)	%	Commodity	Amount(dollar)	%
Rice	470,930	0.02314	Commodity	21,581,913	1.06269
Corn	34,387,433	1.69323	Electric Fans	1,336,982	0.065683
Soybeans	665,538	0.03277	Ferro-alloy	3,056,952	0.15052
Shelled peanuts	14,252,690	0.70183	Ferro-alloy	3,056,952	0.15052
Cotton	30,627,411	1.50809	Telecommunications equipment	35,378,639	1.74204
Cotton yarn	2,253,286	0.11095	Ships	70,767,993	3.48461
Cotton-polyester fibers	37,195,275	1.83149	Metal-Cutting Equipment	6,795,818	0.33462
Cotton knitwear	39,735,305	1.95656	Refined oil	288,461,460	14.2038
Silks and satins	20,136,875	0.99153	Tires	6,631,264	0.32652
Clothing	21,349,268	1.05123	Rugs	2,644,691	0.13022

Total Chinese Merchandise Exports to Singapore in 1992: \$2,030.87 million. (Source: *Chinese Foreign Economic Relations and Trade Yearbook, 1992*)

Only crude oil and refined oil exports were worth more than \$100 million each, as the above table indicates. Between them, these two exports alone accounted for 26.27 percent of total Chinese merchandise exports to Singapore in 1992. Agricultural products like rice, corn, soybean, and shelled peanuts, and primary processed products including cotton yarn and cotton cloth made up another 10 percent or so. In other words, raw materials, farm products, and primary processed products constituted almost 40 percent. In contrast, three categories of products—domestic electrical appliances, ships, and telecommunications equipment—accounted for a mere 6.29

percent of all Chinese exports to Singapore. To put it differently, the mix of Chinese exports to Singapore is still dominated by primary products; products with a high added value and high-tech products from China have not yet pried open the Singapore market. The Singapore market for high added value goods remains monopolized by developed nations like Japan, the United States, France and Germany. China is almost completely shut out of the more lucrative transactions. Apparently Singapore has not yet really come to see China as a "buddy." What attitude then should China adopt toward Singapore? (See Table 4)

**Table 4. China's 1992 Exports of Major Manufactured Products to Singapore's Chief Trading Partners As Percentages of Total Chinese Exports(in million dollars)**

Commodity	Singapore		United States		Japan		Malaysia	
	Amount	%	Amount	%	Amount	%	Amount	%
Domestic Electrical Appliances	21.58	1.25	151.06	8.74	20.80	1.20	5.01	0.29
Electric Fans	1.34	0.89	13.62	8.99	0.002	0.001	0.02	0.01
Ferro-alloy	3.06	0.71	32.03	7.39	163.69	37.79	4.11	0.95
Small Plants	2.27	0.77	1.58	0.53	20.62	6.95	4.55	1.53
Ships	70.77	7.54	132.91	14.15	46.27	4.93	1.98	0.21
Metal-cutting Equipment	6.79	4.00	19.80	11.68	3.15	1.86	5.48	3.23

Data show that China exports less manufactured goods to Singapore than to Japan, the United States, and Malaysia. Of the six categories of commodities mentioned above, the only category in which United States absorbed a smaller share of Chinese exports than Singapore in dollar value was small plants. Singapore imports of Chinese ferro-alloy made up just 0.71 percent of Chinese exports, smaller than each of the three other nations. Chinese exports of domestic electrical appliances to Singapore were off 7.49 percentage points from similar exports to the United States. The numbers in Table 4 clearly indicate two phenomena. First, Chinese exports of manufactured goods to

Singapore are on the low side, both relatively and absolutely. Second, the same kinds of manufactured goods from China have made their way into the U.S. and Japanese markets. What this demonstrates is that Chinese manufactured goods have not successfully established themselves on the Singapore market not because they are not up to par technologically, but mainly because they are not what that market wants.

#### 4. Future Development of Sino-Singapore Trade

Despite its rapid progress in the last decade, the mainland's export processing industry is not equipped to fight

its way into the leading commodity markets in Singapore any time soon. The statistics suggest that the mainland has a larger slice of the Singapore market than South Korea, but what about its exports mix? Exporting large quantities of inexpensive commodities may satisfy a short-term need to earn foreign exchange, but does absolutely nothing to make export commodities more competitive. Besides, flooding a market with cheap products not only militates against the judicious utilization of resources but also would open China to charges of dumping. Changing the industrial structure and adjusting the exports mix at their roots are the only way to really extricate ourselves from our existing passive position in foreign trade.

1) Develop traditional industries vigorously so as to hold onto and even expand export markets.

Apart from crude oil, refined oil, and agricultural products, China has scarcely any best seller on the Singapore market. It is its traditional industrial products like cotton textiles and small electrical machinery that manage to keep their toehold on the Singapore market. Take 1992, for instance. Chinese clothing, silks and satins, cotton knitwear, and cotton-polyester fabrics exports to Singapore accounted for 0.27 percent, 3.32 percent, 4.48 percent, and 3.95 percent, respectively, of total Chinese exports in those four categories. On the surface these appeared to be rather low percentages. But how did they stack up against Singapore's total imports of clothing, silks and satins, cotton knitwear, and cotton polyester fabrics? China supplied 1.05 percent, 0.99 percent, 1.95 percent, and 1.83 percent of Singapore's imports in those four categories, respectively, or less than 6 percent in all. In other words, there is a potential market in Singapore for China's textile and light industrial products. The key is to improve product quality and packaging and research and develop what really sells on the market, gradually penetrating it with a wide variety of goods produced in small batches. Also we should take advantage of labor-intensive enterprises on the mainland and put people to work making or processing textile and light industrial products, embroidery, and ethnic handicraft articles.

2) Continue to invest to expand the exports of electrical machinery products.

The electrical machinery industry is one of those industries on the mainland which have seen rapid returns on investments despite their late start. Today China boasts a full line-up of electrical machinery goods. The industry is technologically quite advanced and its products are of a steady quality and priced competitively. Electrical machinery exports already hit \$11 billion back in 1990 and are sold in more than 100 nations and regions, including the United States, Europe, and Japan. Bearing in mind the characteristics of Singapore's market for imported electrical machinery, we should de-emphasize our weaknesses while putting our strengths to work. Instead of trying to dislodge the United States and Japan from their position as the dominant suppliers of high-precision equipment, automobiles, and microcomputers to Singapore, we should devote ourselves to securing a niche in the Singapore

market for numerical control machines, metal-cutting machines, non-ferrous metals, construction, polymer chemistry, and the mining industry. China should also enthusiastically initiate trade and cooperation with Singapore in up-and-coming high-tech fields such as aviation, computer software, medical diagnostics, and biotechnology.

3) Take the long-term view and develop service trade with Singapore.

We should not overlook the importance of service trade even as we make merchandise trade a priority. In addition to steadily expanding such traditional service industries as tourism, transportation, finance, and insurance, we may launch service trade with Singapore in unique areas. For example, we should consider sending Qigong masters to Singapore to lecture, demonstrate kung-fu, and make diagnoses and offer treatments. Singapore is home to many Chinese, who have the habit of using Chinese-made products. We can specialize in supplying the Chinese in Singapore with Chinese-style services in their daily lives. For instance, we may consider investing in the construction of a Chinese cultural center in Singapore and actively encourage Singaporeans investing in the mainland to put their money in industries and enterprises which sell their output to the Singapore market.

In short, China should not take on its toughest competition head-on in Singapore trade. It is both inadvisable and unnecessary to vie with the United States and Japan for control of the transportation equipment market, for instance. Instead it should adopt a more flexible approach and concentrate its energies on industries that have a special Chinese flavor. That way it can avoid turning the Singapore market into a battlefield where it must compete with the United States and Japan and profit from it practically.

#### Measures for Attracting Transnational Firms Proposed

94CE0630A Shenyang BOHAI SHANGBAO in Chinese  
12 Jul 94 p 3

[Article by Shang Xiuguo (2718 4423 0748): "To Attract Transnational Corporations To Invest in China, Change Our Thinking and Adjust Our Policies"]

[Text] Transnational corporations are having an increasingly significant influence on international economics. Statistics show that there are now 37,000 global transnational companies, having 170,000 branch companies and an export sales volume of \$5.5 trillion, surpassing the global trade volume for the same period (about \$4 trillion). Transnational corporations make up over 50 percent of direct overseas investment in excess of \$200 billion worldwide.

Since the implementation of opening and reform, China has drawn worldwide attention for its achievements in absorbing foreign capital. By the end of 1993, China had approved a total of 17,000 foreign invested projects, with

an actual investment of over \$60 billion. In 1993 alone, China approved more than 80,000 new foreign invested projects, with an actual investment of \$25.7 billion in foreign capital; these two indexes were essentially close to the total amount of foreign direct investment used in the 14 years preceding the implementation of opening and reform (1979-1992). Estimates are that China has become the second largest country in terms of absorbing international capital.

In recent years, many internationally well-known transnational corporations have directed their attention to the huge potential market in China, seeing China as a focal point of investment. For example, more than 10 percent of the 500 largest U.S. transnational corporations have invested in China, including General Electric, IBM, Ford, Motorola and AT&T. Other famous transnational corporations, such as Japan's Hitachi, Sony, Mitsubishi and Panasonic, Germany's Siemens, Volkswagen, and Mercedes Benz, and other countries' Bayer, Phillips, Citron, Samsung and Zhengda, etc., keep pouring in lest they fall behind.

Compared to ordinary foreign investment, transnational corporations' direct investment overseas has significant special characteristics. 1) Large scale investment: for example, the average per project investment in China by U.S. transnational corporations has reached \$45.75 million. 2) Scope of investment areas: transnational corporations integrate manufacturing, trade, investment, finance, technological development and transactions and other services; they have especially strong interest in the real estate industry, the tourism industry and public affairs. 3) Advanced technology: transnational corporations' investment projects have high technological content, with special attention to high-level and high-tech large scale projects. 4) Long term: transnational corporations generally do not pursue short term profits, but concentrate on long term profits; indeed, they often reinvest profits to expand production scale. 5) Good reputation: transnational corporations are conscious of their corporate reputation and image, so they comply with contracts and agreements, have a high rate of capital fulfillment, and are quite reliable.

Bringing in more transnational corporations' investment in China will have the following significant benefits for China: 1) it will guarantee the long-term stability of foreign investment and form the scale of the economy; 2) it will bring in high and new technology, reducing the gap between China and the developed nations; 3) it will improve the operations and managerial level of China's enterprises, especially the level of management which deals with product quality, capital and finance, operations, sales strategies and networks, etc. 4) it will assist the products of Chinese enterprises to get into the international market rapidly, increasing the degree of familiarity and competitive ability of these products.

Therefore, we need more transnational corporations investing in China, especially the world's famous large-scale transnational corporations. Their investment in

China will provide the impetus for moving China's opening to the outside to a new stage.

In order to attract more transnational corporations to invest in China, and taking into consideration the realities of our current situation, we should handle the following several points well:

First of all, we must pay attention to transnational corporations in our thinking: shift from a stress on quantity to one on quality; raise the average amount invested in each project; stress the technical advancement of projects; vigorously import high and new technology projects and projects which are appropriate to Chinese industrial policy; and encourage transnational corporations to invest in basic industries and high and new tech industries.

Second, in policy measures, we should shift from policies of favoritism to objective policies which are more fair and reasonable. Do business in accordance with GATT and international practice, giving transnational corporations civil treatment and being more flexible regarding the areas and scope of foreign investment. This will create more fair competitive opportunities for transnational corporations investing in China.

Third, further perfect the legal system for foreign investment. Comparatively, transnational corporations pay more attention to the complete body of laws and regulations of the host country. We should provide further legal protections for the legal rights of the Chinese and foreign sides. We should gradually bring about and maintain the unity and transparency of laws and regulations nationwide, creating a legally protected investment environment for transnational corporations.

Finally, maintain the permanent stable and rapid growth of our domestic economy, while continuing to resolve such problems as the infrastructure, support industries, the talent pool, etc. Investment in China by transnational corporations basically depends on China's economy growing rapidly. A permanent, rapid rate of growth means huge market potential and huge potential profits. This is the major reason that China has been able to increasingly attract transnational corporations to invest in China at such a rapid pace. So, attracting more transnational corporations to invest in China depends for the most part on the permanent, stable and rapid growth of China's economy.

In summary, we should be fully aware that our utilization of foreign capital has begun to enter a new stage. We must realize the importance of attracting transnational corporations to invest in China, and so promptly alter our thinking, adjust our policies and perfect our legal system. Rapid growth of the domestic economy will attract more transnational corporations, and China's domestic economy will rise to a new level through exploitation of transnational corporations' capital, technology, management, and sales networks.



## Population

### Problems of Managing Floating Populations— Part 1 of 2

94CE0702A Beijing FAZHI RIBAO in Chinese  
21 Jul 94 p 1

[Excerpts of article by staff reporter Jiao Qingle (3542 1987 2867): Problems of Managing Floating Populations (Part 1 of 2)—Exploring Problem of Public Security Management in Face of Migrating Populations]

[Text] A floating population segment is found in localities everywhere, and with it are accompanying problems. In Beijing, a migrating population segment of 300,000 persons working on construction projects comprised 40 percent of the city's construction work force. The presence of this population segment assures smooth completion of a large number of important engineering construction projects. Development of the Pudong area in Shanghai, high-speed economic development in Guangdong province were all accomplished with participation from migrant construction workers.

However, pouring floating populations into cities brings on many problems related to transportation, housing, birth control, municipal facilities, etc., the most serious one being a public security problem with large numbers of migrant workers. In some situations, conditions are bound to be complex, understanding of the law is limited, and in some instances, some criminal elements are mixed in, to create great pressure on social law and order.

Losing storm sewer covers is not anything new in the cities. Whether on black-top paved avenues or on dirt paths between buildings, openings for storm sewers are frequently exposed as large black holes, their covers having "flown off without benefit of wings."

Related local government agencies in some cities such as Beijing, Shanghai, Wuhan, etc., have been bothered by this problem. The loss of such storm sewer covers creates a great threat to pedestrians who may sustain injury or death from accidental falls, and automobiles may flip over.

Most of these lost storm sewer covers are stolen by migrant workers who sell them as scrap metal. According to known information, quite a number of migrants in Beijing who pick up broken scrap are men pushing carts, and women carrying knitted sacks who pick, steal, and rob wherever they go. Some of these migrants are so open and blatant about their activities that they go about in groups and ride in trucks to plunder at construction sites. In the greater Changchun area, over 80 percent of its temporary residents maintain their livelihood by picking up junk. Aggressive investigation shows more than 80 percent of them have engaged in thefts.

Automobile theft is frequent in the cities, and it is not unusual for a family to have three or four vehicles stolen. According to what is known, most of the auto thefts were committed by migrants.

The latest sampling survey from Shanghai shows that on 10 December 1993, the total floating population was 3,310,000 persons. The most important threat to public safety is seen in the growing numbers and increasing proportion of migrant criminals. In 1993, among all crimes and offenses committed, migrants committed 53 percent of them. During the first quarter of this year, the number of migrant criminals comprised 58 percent of the total, in which 80 percent of the thefts were committed by migrants.

In Beijing, since 1978 when reforms and opening to the outside began, up to 1992, the floating population increased five-fold, and their numbers had increased to 1,550,000 persons by 1993. Moreover, in certain areas of Chao, Hai, Feng, Shih etc., places where migrants congregate, have appeared under such village designations as "Zhejiang Cun," "Honan Cun," "Anhui Cun," "Xinjiang Cun," etc. Among criminal elements picked up by the police, the proportion of migrants in this group grew from 22.5 percent in 1990 to 43 percent in 1993. In some places of migrant concentration or bustling business activity, the proportion of criminal cases involving migrants is as high as 80 percent. Furthermore, among the 250,000 migrants engaged in various business operations, quite a number of them operate illegally without business permits, or they evade taxes, or make cheap product imitations in such a way as to affect the normal economic order in the capital.

In Guangdong province, the floating population rose from 410,000 persons in 1982 to more than 12,700,000 in 1993. In economically prosperous areas such as the Zhujiang delta, the floating population in some towns is practically equal to that of the resident population. In places such as Shenzhen, the floating population is even two to three times that of the resident population, and in some towns, the floating population is more than ten times that of the resident populace. As the result, the incidence of migrants breaking the law becomes more serious by the day. The proportion of migrants committing crimes also grew from 7.19 percent in 1980 to 55.17 percent in 1993. In places where economic development is flourishing, this figure is as high as 78 percent, or even up in the 80 to 90 percent range. In particular, serious criminal cases involving robbery, murder, highway robbery or obstruction are mostly committed by migrants.

In Jiangsu province, outsiders consist of two groups, each group having a total of five million persons. That is, one group consists of temporary residents, whereas the other five million are migrants. In Yangzhou, Nantong and five other cities in southern Jiangsu, the number of outsiders registering as temporary residents make up more than 82 percent of the total provincial population. Similarly, the proportion of committed crimes involving outsiders is also going up rather quickly. In Shandong and Fujian provinces, where economic development is moving at a fast pace, this surge by outsiders has been felt. Registration of temporary residents last year has already exceeded 100,000 persons.

What transpired in southern China in yesteryear is happening in some cities and towns in the hinterland. Related

agencies in provinces such as Jilin, Shanxi, and Sichuan feel that public security problems incurred by such temporary residents in their jurisdictions have reached the point where they need to be faced. [passage omitted]

### **Problems of Managing Floating Populations— Part 2 of 2**

94CE0702B Beijing FAZHI RIBAO in Chinese  
26 Jul 94 p 1

[Excerpts of article by staff reporter Jiao Qingle (3542 1987 2867): Problems of Managing Floating Populations (Part 2 of 2)—Exploring Problem of Public Security Management In Face of Migrating Populations]

[Text] In recent years, localities everywhere have strengthened their management of floating populations. Following the "Regulations on Household Registration in the PRC" and the Ministry of Public Security's "Temporary Regulations for Managing Temporary Residents in Cities and Towns" issued in 1985, localities have come up with methods to manage their migrant temporary resident populations, their rental of private housing, etc. In some places, laws passed by the provincial assemblies or city councils have been used as the legal basis to deal with floating populations.

Public security agencies in Jiangsu province changed their guidance ideas and work focus in time to gradually implement a population management policy that used to focus primarily on the permanent resident population to a strengthened one focusing on the temporary resident population. In Zhejiang province, the focus of household management also shifted from management of permanent residents to one that strengthened management of migrant outsiders and others with bad background records. In Hubei province, public security agencies in 1991 very clearly placed management of temporary resident populations as an important and basic grass-roots level task, and at the provincial public security conference proposed good population management to be the breakthrough goal for public security work in the 1990's. In February of this year, the Jiangsu Provincial People's Assembly discussed and passed "Regulations for Managing Temporary Residents in Jiangsu Province." In Fujian Province, the governor also signed a proclamation to implement "Management of the Temporary Resident Population in Fujian Province."

Special agencies have been established in localities everywhere, forming a management network. In Guangdong province, units providing leadership on floating population management are formed from participants drawn from public security, labor, and business organizations. According to incomplete statistics, the whole province has 110 management organs on the city (county) level, and 1951 on the village town level. In the municipality of Beijing, floating population management units have been established at the neighborhood, and village town levels. Furthermore, established among the masses are self management units such as committees or offices to handle housing rentals and matters related to work sites, hotels,

individual households, etc. At present, there is a total of 8,084 units dealing with various aspects of floating population management in the city, employing 48,692 managers, household specialists, coordinators. In Jiangsu province, village towns and neighborhoods have established 2,680 management offices; and plant and enterprise units, as well as residential committees etc., have set up 11,540 small management units staffed by a total of 31,795 management workers.

For their work to bear fruit, a whole system of regulations dealing with temporary residents—registration, permit issuance and routine management, permit inspection, work awards, and fines have been established. Application and report procedures are considered by all localities as important links in managing floating populations. Any migrant whose temporary stay exceeds 3 days or a month needs to go to the local committee's population registration station or police station to apply for a temporary resident permit. The local police station registers, checks, and approves the application and issues the permit. It also establishes a card file on the temporary resident, which is canceled and removed upon his/her departure. In this manner, an accurate count is kept in a timely fashion on the numbers in the floating population and their distribution. Some localities even have in effect a system of rewards and punishment, requiring special household coordinators to play a more active role, and placing management of outside populations under local police station jurisdiction in establishing an investigative/review system.

The makeup of the temporary resident population is complex, and public security agencies everywhere can only manage it by classifying these temporary residents by occupation or place of residence, in however manner that is suitable. As for temporary residents at the unit work site, the principle of "whoever did the hiring is responsible" applies. Public security agencies and work units sign public security contracts in which the unit requiring the temporary resident labor appoints a person to be responsible for management. As for construction sites, under the local police station's leadership, a small management unit or public security unit is established within the construction team, and a contract is also signed with the construction team manager or foreman to assure that no public safety problem will arise during construction. As for floating populations living in rental housing, a public security agreement between the public security agency and property owner is signed to place management responsibility. By "grasping head and feet"—that is, holding the unit requiring the labor, the construction foreman, the rental property owner, and the temporary lodger from the floating population responsible, demonstrates in brief how public security agencies are handling the problem.

At the same time that various measures are implemented to manage the floating population, public security agencies everywhere are continuing with clean-up and consolidating measures to ferret out criminal elements mixed in with the floating population. After continuous efforts in

Beijing last year, 6,000 criminal elements were arrested, thereby clearing up several thousand cases. In Guangdong province during the first half of last year, a comprehensive clean-up and consolidating program was conducted among the rented housing properties, construction work sites etc., which ferreted out almost 40,000 unaccounted for migrants. Among them were almost 8,000 criminals, which also led to cracking 2,000 criminal cases.

According to officials in the Ministry of Public Security, by making the management of floating populations a basic public security task on the grass roots level, it directly served the reality of the struggle. In 1993, a total of 500,000 law-breaking criminal elements were ferreted out from the floating population. [passage omitted]

At present, coordination between functioning government agencies is lacking, so management of the problem is off track. Some agencies are only concerned with collecting fees and lax on management; some are only concerned about benefits accrued to their agencies, with no concern about the overall situation. As the result, a picture of "one party governs, with a hundred parties operating" emerges, without a tightly organized management system.

Next is an incomplete set of management rules and regulations. At present, the state has yet to have a set of rules and regulations on the management of temporary resident populations, though different localities have devised some. But these local regulations lack authority and are subject to change as the situation develops. Moreover, some are not suited to the task at hand.

Furthermore, some management procedures are outdated. Public security agencies at present still borrow methods used to manage permanent residents in their handling of temporary residential populations. They are used to registering and canceling out, and their control of temporary residents with problems is very weak. As movements of these outsiders are very mobile, and a complete investigative and intelligence system on the provincial and national levels has yet to be established, information on temporary resident populations at present is slow, so that illegal and criminal activities within the group are not caught and attacked in time, and management is not integrated with the real struggle.

Finally, management resources are inadequate because of a shortage of funds for the purpose. This is a longstanding problem for public security agencies. At present, the most important public security agencies dealing with floating population management are the ones handling public safety and household registrations. According to a rough estimate made by the Bureau of Public Security in Jilin province, the work required of it covers more than 300 items. With such a heavy load it is difficult for it to transfer manpower out to concentrate on floating population management. Even hiring extra personnel for this purpose is difficult. With shortage of funds, both quality and quantity suffer in the hiring of persons to meet this need. [passage omitted]

## Transportation

### Transport Plan Urges 2,500 Billion Yuan Investment

94CE0663A Hong Kong TANGTAI [CONTEMPORARY]  
in Chinese No 40, 15 Jul 94 pp 80-82

[Article by Ma Weilin (7456 4850 2651): "China To Boost Comprehensive Transport Infrastructure Development"]

[Text] There has been a significant expansion of the transport infrastructure in the last 40 years, especially since reform has been under way and the open policy introduced. This expansion essentially ensured the development of the Chinese economy. Fettered by traditional ideas, however, we did not sufficiently appreciate the importance of communications and transportation and underinvested in it. The upshot is that transportation development lagged behind woefully, the gap between transport capacity and transport needs widening by the day. Communication and transportation has become the worst bottleneck for reform, the open policy, and the modernization drive.

### Building the Nation's Four Major Transport Corridors

The volume of passenger and cargo traffic will continue to increase at a fast pace in the 1990's and the first years of the next century. Given this trend, our transport development strategy should concentrate on increasing rail transport capacity, making the most of the strengths of a variety of modes of transportation, including highways, shipping, and air transport, and building the nation's four major transport routes to carry energy, raw materials, passengers, and foreign trade.

1. Building railways to transport output from energy and heavy and chemical industrial bases.

Railway building. We are currently upgrading and improving such lines as Fengshada, Jingyuan, Shitai, Qianchang, Dajiao, and Nantongpu. On top of that, we must aggressively tackle phase two of the Daqin project and the construction of related infrastructural facilities and speed up the building of these railways: the Jining-Tongliao line, the three Qinhuangdao-Shenyang lines, Datong-Zhunge'er line, Shenmu-Shuo County line, Shuo County-Huanghua line, Yangquan-She County line, Houma-Yueshan line, and Shenmu-Yanan line. By the year 2000, outbound freight transport capacity will reach 570 million tons or so and coal transport capacity will be about 450 million tons. Several additional special lines will be built to transport coal after the year 2000. Possible candidates for construction include Suide-Liulin-Xuzhou, Pingliang-Xian-Xiangfan, and Yangquan-Qiandan-Jinan-Huangdao. By the year 2010, there will be over 10 routes leading from the "three west" bases and the combined freight transport capacity will be about 850 million tons, basically enough to ship all coal from the bases.



**Table 1. Projected Increases in Nation's Passenger and Cargo Traffic**

Item	Year 2000		Year 2010	
	Projection	% Increase from 1990	Projection	% Increase from 1990
Total Passenger Traffic (billion persons)	17-18	126	33-35	340
Including: rail traffic	1.5	57	2-2.2	120
highway traffic	15-16	139	30-32	378
water-borne traffic	0.3	-	0.35	-
air traffic	0.08-0.10	442	0.25	1,408
Total Cargo Traffic (billion tons)	18-19	90	30	210
including: rail traffic	2.1	39	2.6-2.8	79
highway traffic	15	107	25-26	252
water-borne traffic	1.3	63	1.8-2.0	137
Handling capacity of coastal ports (billion tons)	1.1	129	2	317

### Building Coal Transfer Stations in Zhu Jiang Delta

Rail-and-water coordinated transportation. Rail-and-inland water coordinated harbor construction. It is a priority to build wharves at coastal ports including Qinhuangdao, Qingdao, Rizhao, and Lianyungang for the exclusive purpose of transporting coal. In addition, the construction of coal-only berths at Huanghuagang will be accelerated. Coal shipment capacity will hit 200 million tons before the year 2000 and everything must be done to boost that figure to 300 million tons by the year 2010. To ensure coal supplies in east and south China, two to three large coal transfer stations and storage bases are slated for construction in the Chang Jiang delta, south Fujian delta, and Zhu Jiang delta. The renovation and expansion of coal transfer wharves at Pukou, Yuxikou, Wuhan, Zhicheng, and Hanjiangyujiahu, all of them along inland rivers, and Xuzhou and Jining along the Beijing-Hangzhou Canal will be accelerated to ensure coal availability.

### 2. Building Passenger Transport Facilities in Large and Mid-Sized Cities

Concentrate on mid- and long-distance passenger transport in large and mid-sized cities. A major push to develop civil aviation should be accompanied by efforts to build arterial railways and key national highways.

At the moment the three major railways—Beijing-Guangzhou, Beijing-Shanghai, and Beijing-Harbin—have a combined length of 5,000 km (10 percent of all operational distance in the nation) and carry 40 percent of China's total passenger and freight traffic. Following the construction of the Guangzhou-Shenzhen high-speed railway, a similar high-speed railway will also be built between Beijing and Shanghai before 2000. After 2000, over 5,000 km of high-speed railways will be built between Beijing and Wuhan, Beijing and Shenyang, and Xuzhou and Xian.

Highway construction. Roads leading into and from large and mid-sized cities will be built. An all-out effort will be made to build four key national highways before the year

2000: Tongjiang-Sanya, Beijing-Zhuhai, Shanghai-Chengdu, and Lianyungang-Huocheng. By the year 2010 a national system of highways consisting of over 30,000 km of roadways should essentially be completed.

The three major aviation hubs of Beijing, Shanghai, and Guangzhou account for one-half of the nation's total passenger and cargo traffic. Civil aviation development will concentrate on the creation of an aviation network which revolves around the three aviation hubs mentioned above and whose framework consists of the various provincial capitals, regional urban centers, and cities opened to the outside world.

### 3. Main Transport Lines Between Large Regions

Transport routes between large regions consist of railways, the north-south coast, major tributaries of Chang Jiang, major national highways, and air routes, etc. The development priorities are the north-south corridor and roads leading into and out of the northeast, northwest, and southwest China.

#### Beijing-Kowloon Railway to Open to Traffic before 1995

North-south corridor. Railway construction includes the electrification of the Beijing-Guangzhou railway and Beijing-Shanghai railway and the multiple tracking and electrification of the Dajiao-Zhicheng railway. Another priority is to accelerate the completion of Beijing-Kowloon railway so that it will be open to traffic before 1995. It is also a priority to finish the construction of the Beijing-Shanghai high-speed passenger railway before 2000. After 2000, construction will begin on the Beijing-Wuhan high-speed passenger railway. Planning will also get under way on the construction of a coastal railway running from Harbin through Dalian, Yantai, Qingdao, Xinyi and Chongqing to Wenzhou, Fuzhou, Xiamen, and Guangzhou. In waterborne transportation between the north and south, the emphasis is on the construction of coal berths and a fleet of cargo ships. In inland waterway transportation, the emphasis is on the dredging of the Beijing-Hangzhou Canal and the diversion of waters from rivers in the south to waterways in the north for transportation.

—Transport routes leading into and out of the northeast. In rail transport, the priorities are to accelerate the construction of the Jining-Tongliao railway; build the three Qinhuangdao-Shenyang lines; multiple-track the Binzhou-Binsui railway, the Qiqihar-Taipingchuan-Tongliao-Dahushan railway, and the Changchun-Tumen railway; and electrify the Harbin-Dalian Railway. In inland waterway transport, the priorities are the dredging of Heilong Jiang and the diversion of waters from Songhuajiang to Liao He in the north.

—Transport routes leading into and out of the northwest. Rail transport. Accelerate the multiple tracking of the Lanzhou-Xinjiang railway (Wuwei-Urumqi section) and Baotou-Lanzhou railway (between Shijushan and Baotou), and the electrification of Baotou-Lanzhou railway (between Lanzhou and Shijushan). Priorities are the construction of new lines linking Baoji and Zhongwei, Shenmu and Yanan, and Xian, Anyang, and Nanjing. In light of economic development, particularly the opening up of the Talimu oil-field in south Xinjiang, the construction of Kuerle-Kashi railway and Talimu-Lhasa railway leading into Tibet are planned.

—Transport routes leading into and out of the southwest. Accelerate the multiple-tracking of the Baotou-Lanzhou railway and Hunan-Guizhou railway (between Zhuzhou and Loude) and the electrification of the Hunan-Guizhou (between Yuping and Loude) and Chengdu-Kunming railways. Priority will be given to building new lines such as Xian-Ankang, Chongqing-Huaihua, Da County-Wuhan, the Anda-Shushe section of the Inner Mongolia-Kunming railway, and Nanning-Kunming railway. Among these new lines, the Nanning-Kunming railway gives southwest China access to the sea. Its building, therefore, should be put on a fast track.

#### 4. Construction of International Transport Links

Concentrate on the building of coastal ports, routes leading to such ports, and international civil aviation airports. The construction of coastal ports should focus on the building of container berths. At the same time, we should speed up the construction of bulk cargo berths for such staples as petroleum, metallic minerals, and grains. Do a good job in planning and building China's four major deep-water harbors: Dayaowan, the waters in the Beilun-Zhoushan area, Meizhouwan, and Dapengwan. Beijing, Shanghai, and Guangzhou will be the leading hubs of international aviation, but the building of other international airports on the mainland will be speeded up also to increase our international air traffic capacity.

#### Transportation Development To Cost 2,500 Billion Yuan

To accelerate transport development, the following approaches and strategies should be adopted:

1. Create a sound mechanism for funding transport infrastructural construction in order to provide transportation development with an adequate and stable source of funds.

Initial estimates put the total fixed assets investment required to implement the 1990-2010 transport development plan at 2,500 billion yuan (1990 prices) or so, including 800 to 900 billion yuan needed between 1990-2000. To assemble the necessary funds and hasten development, we should take the following measures:

—Set up a special development fund modeled on the rail transport development fund for each mode of transportation. Contributions to those development funds should be collected at a rate commensurate with the scale of capital construction and project costs. Special transportation funds should be properly managed so that over time they function like a revolving fund.

—Improve the terms on which banks extend credit to transportation projects and on which such projects raise short-term loans in society. Bank lending should give preference to the transportation industry by offering it favorable terms. Set up rate-subsidized funds and policy-oriented financial institutions to offer subsidies to large transportation projects.

—Attract and utilize foreign capital diligently. Low-interest loans from international financial institutions and foreign governments should go to transportation projects on a priority basis. Policies should be liberalized to allow joint ventures with foreign companies to undertake infrastructural development together. When the specified conditions are met, wholly foreign-funded enterprises should be allowed to operate and do business in the transportation sector.

—Popularize the shareholding system vigorously and cast a wide net to absorb social funds.

2. Reform existing transport development management system.

Eliminate the flaws of the old system: over-centralization and the monopolistic way of doing business. Instead adopt the following policy: practice unified planning, assign responsibility to each level, integrate the vertical with the horizontal, and engage in construction jointly." There should be a sound division of labor between the central government and local governments. All departments should follow the principle of "sharing interests and risks" and work together to make transport development a success.

3. Transform the operating mechanism and accelerate development.

—Actively plan and organize the creation of multinational corporations whose core business is transportation but which have a diversified range of interests so that profits in one area can offset losses in another. These corporations can be a new source of funding for transportation construction. Adjust the structure of transport prices and change the price-formation mechanism. The price-formation mechanism and management system should meet the needs of the market economy.

—Government administration should be separated from enterprise management in transportation companies. They should enjoy and be given more decision-making authority in their operations.

—Nurture and develop a transportation market. There should be a coherent body of laws and regulations for such a market. Improve management. Utilize market mechanisms to energize transportation enterprises.

4. Optimize transportation demand and economize transportation capacity.

Speed up the optimization and upgrading of the industrial structure. Improve the distribution of industry with the ultimate goal of trimming unjustified demand for transport facilities and lowering the share of ineffectual traffic.

#### **Siemens To Sponsor Large Railroad University in Sichuan**

94CE0674B Duesseldorf VDI NACHRICHTEN  
in German 5 Aug 94 p 22

[Article by WOP: "Siemens Sponsors China's Largest Railroad University"]

[Text] Siemens AG concluded a sponsorship contract with the Southwest Jiaotong University (SWJU) at the end of July in Chengdu, Sichuan, China. The Siemens Transportation Technology Division in Erlangen and the SWJU will now cooperate both in engineering and scientific areas on the development of railroad technology in China. Studies will be produced jointly and the newest research and development results of Chinese engineers will be presented at conferences. In addition, Siemens will award stipends to SWJU graduates ensuring continued education at German colleges and in Siemens factories. In turn, the SWJU will make it possible for German students to receive practical training in China.

The Southwest Jiaotong University is the second oldest college in the People's Republic of China. It was founded in 1896 in Tangshan. Of the 1,075 universities in China, it ranks 26th of the 60 selected important universities. However, the SWJU is uncontested number 1 in the area of railroad technology. In its 37 fields, 1,400 instructors and 200 professors teach more than 8,000 students. The education of the railroad elite of China is concentrated to the Academy for Railroad Engineering of the SWJU. Asia's only dynamic test stand for 400 km/h (built by Schenk AG of Darmstadt), a modern wind tunnel and other high-tech laboratories support the work of the SWJU for the development of railroad technology in China.

Among the important successes of the transportation university are the development of the first Chinese subway and the first diesel-electric locomotive, significant large-scale bridges, the implementation of the 10,000-metric-ton heavy-load freight transport system on the Datong-Qinghuangdao coal line, and the syndicate management of the high-speed railroad project between Beijing and Shanghai, which was initiated by the SWJU President Sun Xiang. The voice of the "godchild" of Siemens carries

weight in the People's Republic. Two professors of the Southwest Jiaotong University are members of the Chinese Academy of Sciences and another is a member of the recently formed Chinese Academy for Engineering.

#### **Transport School in Schengdu Promotes Economic Change**

94CE0674A Duesseldorf VDI NACHRICHTEN  
in German 5 Aug 94 p 22

[Article by J. Heinrich, W. Pester: "Transport School in Chengdu Supports Quick Change in China"]

[Text] Southwest Jiaotong University plays central role in railroad developments in the People's Republic

#### **Nothing Happens in Chinese Transportation Without Experts**

For the railroad, the infrastructure backbone of the opening Middle Kingdom, the Southwest Jiaotong University (SWJU) in Chengdu, Sichuan province, is considered the crucible of especially innovative engineering scientists. China is using even their help to make technological connections with the major players in the world economy.

For Professor Li Zhisong, the future looks rosy. "Now, the railroad has a chance of developing here." The mechanical engineering specialist and chief administrator of the southwest Chinese alma mater is betting on the continuation of economic reforms as if they were a sure thing. "Our country will open itself even more," says Li. He supports his optimism with the statement that the railroad is the key to opening China economically.

Investments, high technology and efficient management—Professor Sun Xiang assigns particular significance to these three factors in the next years during expansion of the railroad network in the People's Republic. Professor Sun Xiang is the president of the SWJU. Both men appear to be correct in view of the previous development. The proportion of preliminary scientific work, associated research and expert reports on economic prosperity in the area of the infrastructure has increased significantly in recent years. However, the railroad and power generation remain the biggest headaches of the economic success. Particularly in the area of railroad traction technology and high-speed traffic, there is a need for further research, concedes President Sun. He still considers the technical level of China to be too low in comparison with the western industrialized countries. However, Professor Sun Xiang is hoping for help from these countries. "We need a close relationship primarily with Germany," he says. He is happy about the cooperation agreed to at the end of July with the Transport Technology Division of Siemens AG. With about 400 full-time researchers, the railroaders' crucible forms the hard core of those engineers who will cooperate closely in the development of railroad technology with factories that build locomotives, other cars, signal and safety systems in the entire country.

The official goal of education is to promote "social modernization" of the country by educating "highly qualified



specialists and managers for operation, construction and research." Following this goal, the SWJU has been concentrating for years on the areas of structural engineering (bridge building and tunnel construction), rail-bound vehicles (traction technology, freight and passenger cars), as well as railroad electrification and railroad automation. These areas have been declared "national key areas" by the Railroad Ministry in Beijing.

The transportation university has not just been enjoying increased attention from the political leadership of the People's Republic recently. In the fifties, Mao Zedong and his comrades from the time of the "Long March" were regular visitors. Recent visits from the State President Jiang Zemin, the Chairman of the National People's Congress Quiao Shi, the Prime Minister Li Peng, and the Railroad Minister Han Zhubin placed the significance of the SWJU for China in the proper light.

The output of the transportation university is also impressive. The college brought home more than 100 state awards and scientific prizes in recent years. It published about 2,500 research papers and presented over 100 scientific monographs.

The cradle of the renown first railroad university of China, however, did not stand in warm and humid southwest China. Its predecessor, the Imperial Chinese Railroad College, was founded in 1896, first in Shanghaiguan, Hebei Province, near the capital of Beijing. In 1905, it moved to Tangshan as the Tangshan Chaio Tung University, finally to bear the name of the National Tangshan Engineering College for a long time. In the course of a reform of the government education system in the People's Republic that was young at the time, individual institutes moved in 1952 into the capital and to Tianjin and Qinhua. In 1972, it moved to Emei in Sichuan Province. Finally, in 1988, the largest portion of the SWJU moved to the expanding provincial capital of Chengdu. A campus, generously equipped with a lot of water, parks and sport facilities, as well as apartments for students and university employees was constructed on green fields for the university.

The railroad brain trust invested heavily in the equipment of its institutes with advanced, high-performance and precision machinery. The showpieces include not only the computer center with its CAD stations and more than 200,000 machine hours per semester. The scientists are particularly proud of the locomotive simulator (Train Dynamics Analyzer). It commenced operation in 1990 and received the "Second prize for scientific and technological progress" from the Railroad Ministry. The trainer was considered one of the key projects in the last five-year plan. Within a short time, it was developed, constructed, and capable of realistically simulating the particular features of the Chinese railroad under computer control.

China's railroaders are even prouder of the first dynamic test stand in Asia for 400 km/h, available last year. The Test Center for Wheel/Rail Developments, which started operation in August 1993 on the campus, makes use of the most advanced dynamic test stand technology of Carl

Schenk AG of Darmstadt. It is in the Center of the High-speed Railroad Project of the People's Republic. The Test Center may increase the competitiveness and significance of the university in the railroad sphere again—and this throughout Asia. The university has good contacts with relevant transport universities in neighboring countries.

The Wind Engineering Research Center, located 150 km south of Chengdu in Emei, is another of the large-scale facilities of the SWJU. At the foot of the almost 3,100 meter high Emeishan with its numerous Buddhist temples, the university has a modern wind tunnel of compact design and water flow test systems. In these, not only are the required aerodynamic tests performed on rolling stock. Other vehicles, bridges and high-rise buildings are tested by scientists in Emei with regard to their ability to withstand the often difficult geographic and climatic conditions of China.

The People's Republic has spent a lot of money on the Southwest Jiaotong University to expand it to a college with modern equipment and that need not take second place to a western university. As a teaching and research facility, it possesses the prerequisites for the development of railroad technology in China, which is being produced in more and more autonomous factories. Both Professor Sun Xiang and the administrator Li Zhisong know that reform takes time. Both say, in a single voice, "Yi-bu, yi-bu—step by step does not mean slowly."

## Agriculture

### Xinjiang, Henan Report Cotton Area

#### Xinjiang Cotton Area

94CE0671P Beijing NONGMIN RIBAO in Chinese  
3 Sep 94 p 1

[Summary] This year the cotton area in Xinjiang is 11,150,000 mu, an increase of 1,740,000 mu over 1993, exceeding the regional guidance plan by 450,000 mu, and 96.67 percent of the cotton area is covered with plastic film.

#### Henan Drought Damage

94CE0671Q Beijing JINGJI CANKAO BAO in Chinese  
26 Aug 94 p 1

[Summary] This year the cotton area in Henan Province is 14 million mu, since the beginning of August more than 8 million mu has been affected by drought.

#### Jilin Publishes Rural Tax Collection Rules

94CE0729B Changchun JILIN RIBAO in Chinese  
4 Aug 94 p 2

[Order issued by the Jilin Provincial Government, Gao Yan (7559 0917), Governor: "Methods for Implementing the Collection of Agricultural Taxes on Income Derived from Special Local Agricultural Production in Jilin Province"]

[Text] Jilin Province Peoples Government Order Number 20 Herewith published "Methods for Implementing the Collection of Agricultural Taxes on Income Derived from Special Local Agricultural Production in Jilin Province" are effective from the date of publication forward. (Signed) Gao Yan, Governor. 23 July 1994.

**Article 1.** In accordance with "State Council Regulation on Collection of Agricultural Taxes on Income Derived from Special Local Agricultural Products" and taking into consideration actual conditions in our province, we set forth these implementation methods.

**Article 2.** Any unit or person who produces or purchases special local agricultural products within the borders of this province, such produced or purchased special local agricultural products which in accordance with this regulation come within the scope of those which should pay special local agricultural product taxes, must pay special local agricultural product agricultural taxes (hereafter called special agricultural product taxes) in accordance with this regulation.

**Article 3.** On income derived from the production of the following special local agricultural products, the producing unit or individual will pay special agricultural products taxes: (1) Horticultural income, including income from the production of agricultural products including fruits, dried fruits, silkworm cocoons (including mulberry silkworm cocoons and tussah silkworm cocoons), gourds used as fruit (including watermelons, sweet melons), flowers and plants, nursery stock. (2) Aquatic products income, including income derived from aquatic plants, (including reeds), freshwater breeding (including swamp and rice field fish farming) and fished-for products. (3) Wood products income, including income derived from logs, natural resins, oils derived from wood, (including pine nuts, walnuts, hazelnuts, etc.) and other forestry products (including saplings, fuel wood, wooden poles, black and white willow wicker, etc.) (4) Medicinal materials income, including income derived from plant medicinal materials and animal medicinal materials. (5) Edible fungi income, including income derived from edible fungi products and fungi cultivation including black tree ears, silver ears, Xianggu mushrooms, mushrooms etc. (6) Income derived from other special local agricultural products, including income derived from special products such as honey, flowers, ferns, etc.

**Article 4.** Purchasers of the following agricultural local special products, the purchasing unit or individual will pay the special agricultural products taxes according to the purchase price and the stipulated tax rate: (1) Tobacco leaves, including air dried tobacco, roasted tobacco; (2) Animal products, including animal hides, including sheepskins, rabbit fur and wool yarn; (3) Silver ears, black tree ears; (4) Aquatic products; (5) Logs. When purchasing products other than those listed in the preceding article paragraphs (1) through (5) on which taxes should be paid but have not been paid, the purchasing unit or individual should take out and turn in the production segments' special agricultural products taxes according to this implementation measure.

**Article 5.** Income from special agricultural products subject to taxation refers to income from basic level production. This includes income derived from products' basic level processing carried out to protect freshness or to prevent deterioration and rudimentary processing.

**Article 6.** Where there is a special agricultural product which in the local area generates large earnings, and large profits and has attained a certain scale of production, and on which the peoples governments of the individual cities or counties truly consider it necessary to exact special agricultural product taxes, this must be reported to and passed by the provincial peoples government before implementation.

**Article 7.** The taxable items and the tax rate for the special agricultural products tax will be implemented in accordance with the special agricultural products tax list and tax rates appended to this implementation method.

**Article 8.** The amount of special agricultural products tax to be levied is determined by calculating the actual income for the special agricultural products (or the purchase amount) and the stipulated tax rate. The actual income for (or purchase price for) special agricultural products will be calculated in Ren Min Bi (RMB). The concrete method of calculating and determining the special agricultural products tax is: (1) On taxes received from the producer, it is calculated according to the special agricultural products actual amount produced and the purchase price set by the state or the market purchase price. The formula for calculating the tax is: The actual income from special agricultural products equals the actual amount produced multiplied by the purchase price. Products which are special agricultural products subject to this tax but not yet taxed and undergoing continued processing are to be considered raw products for the purpose of determining taxes on actual income. (2) On taxes collected from the purchaser, it is calculated according to the actual amount purchased and the purchase price. The formula for calculation is: The actual purchase price of the special agricultural products equals the actual amount purchased multiplied by the purchase price. On the purchase of leaf tobacco, in the purchasing segment, all income derived from the purchasing transaction which was paid by the purchasing unit (including income not included in the purchase price and all types of other subsidizing income), no matter how handled in the financial aspects, must be included in the calculation of the purchase price for the exaction of special agricultural products taxes. (3) Since this concerns products which are small and loose and difficult to figure actual income for individually, the local tax collection office may choose to stipulate a production quantity in accordance with the actual situation with each individual product, and calculate and tax income according to a local mid-level price.

**Article 9.** Reduction and elimination of special agricultural products taxes: (1) Income derived from special agricultural products, which are the subject of or a project of research or of teaching by units actively engaged in teaching or research on special agricultural products, and

which are registered in the plans for study, experimentation, teaching or research by the central ministerial committees or by the scientific, the planning, the economics and trade or the educational committee of the province, and derived during the period of the experimentation (trial production) project or study, is exempt from taxation. (2) Special agricultural products which are cultivated or planted in or on newly developed wastelands, uncultivated mountains or water surfaces are exempt from taxation for a two year period beginning with the year in which income is first derived. However, special agricultural products categorized as a one-time profit are not included under this rule. (3) Special agricultural products which are produced by the farmer in his own house and yard for his own use and consumption are not subject to the special agricultural products tax. (4) Regarding income derived from forestry products such as small diameter logs [poles], firewood, and other such income from forestry products, the special agricultural products tax rate will be reduced to a 5 percent tax rate. (5) The tax rate may be appropriately reduced or eliminated for the rural village households of revolutionary heroes, disabled revolutionary veterans, widows, widowers, orphans and the childless, five guarantee households, the poor for whom adequate living conditions have not yet materialized, and those who really would have difficulty paying the tax. (6) The tax may be appropriately reduced or eliminated on special agricultural products produced by welfare enterprises established primarily to provide employment for the disabled (the disabled represent more than 50 percent of the total plant work force). (7) The tax may, in consideration of the circumstances, be reduced or eliminated when paying the tax would present definite difficulties because of reduced production of special agricultural products and reduced income caused by natural disasters. The paragraphs on reducing and eliminating the tax under this article refer to the reduced or eliminated tax for those units or individuals who produce special agricultural products. The reduction or elimination of the special agricultural products tax will be effected after the tax collector submits a petition which is approved by the local tax collection organization, and then submitted to and approved by the county (city, district) financial organs. Regarding the reduction or elimination of the special agricultural products tax on the subjects of research on special agricultural products by research and teaching units, the application must be submitted to the provincial financial office for approval. Concerning the products as listed in this regulation which should be taxed and the tax reductions or eliminations in an individual area, such petitions must be reviewed and approved by the provincial government or referred to the Ministry of Finance.

**Article 10:** Tax payers who simultaneously run reduced tax and tax exempt operations should individually calculate the income from the tax exempt and the reduced tax operations; those who have not individually calculated taxes or are unable to provide accurate taxable income figures, may not reduce or eliminate their taxes.

**Article 11:** The collection of the special agricultural products tax on income from the raising of fish in rice fields is temporarily delayed.

**Article 12:** For special agricultural products produced upon land which is taxed according to the agricultural tax, after income is derived from special agricultural products, then the tax will be changed to the special agricultural products tax.

**Article 13:** The obligation to pay taxes on special agricultural products occurs at the time when: (1) the day on which the production unit or individual harvests and sells the special agricultural products; (2) the day on which the purchasing unit or individual purchases the product.

**Article 14:** Taxpayers who are engaged in production operations during the current year and have a fixed place of business or fixed dwelling address should submit a registration as a tax payer to the tax collecting organ or tax collection agent unit before the tax obligation occurs and should report and pay the taxes to the local collection organ within 30 days from the day the tax payment obligation occurs. The actual time limit for the payment of taxes should be determined by the local tax collecting unit in accordance with the tax payer's actual situation.

**Article 15:** Special agricultural products taxes are paid by the unit or individual who produces special agricultural products; the tax funds are to be paid to the designated production district tax collection organ or agent unit; for taxes paid in by the purchasing unit or individual or deducted for or paid on behalf of the purchasing unit, the tax funds will be paid to the designated sales district tax collection organ or collection agent unit. Those who sell the leaf tobacco they themselves produce will themselves pay the special agricultural products tax at half the tax rate. The tax funds will be paid in full to the production unit and the tax collection organ of his place of residence. For special agricultural products production units and individuals who sell logs and aquatic products, the production unit or individual will deduct the purchasing unit's or individual's special agricultural products tax according to the selling price and the designated tax rate. The tax funds will be paid in full to the production unit's or the individual's local tax collection organ. When taxable special agricultural products are transported outside the bounds of authority of the designated tax collection organ, the tax payer should pay the special agricultural products tax to the designated tax collection organ or agent unit in accordance with regulations before the fact, and then in accordance with regulations complete the procedures for obtaining an export permit, so that the relevant tax receipt can accompany the goods. Otherwise, if the nonpayment is discovered in transit, the production sector or purchasing sector special agricultural products tax will be levied additionally on the shipper's taxable products and in accordance with the subordination of the investigating unit impounded until the tax is paid in full. Special agricultural products taxable in our province which are transported from another province into any area of this province may circulate freely within our province as long



as they carry proof of special agricultural products taxes paid issued by the other province's tax collection organ.

**Article 16:** The organ collecting the special agricultural products tax may choose either to collect against an audit of accounts, collect against orders (that is, collect against a check and verification of income), collect against an inspection; collect at designated times or of designated amounts, and other such various collection methods. Tax-payers who do not accurately report their income for special agricultural products will be investigated by and taxes will be collected by the local tax collection organ.

**Article 17:** The special agricultural products tax will be collected by the financial organs. The organs collecting the special agricultural products tax may entrust relevant units and individuals to collect the special agricultural products tax. The entrusting of relevant units and individuals to collect the special agricultural products tax must be approved by the provincial financial departments. Units and individuals who are entrusted to collect the special agricultural products tax must collect the funds as agent in accordance with the law following the requirements of the financial collection organs.

**Article 18:** The financial collection organ may extract a certain ratio of collection fees from the special agricultural products taxes actually collected, the actual method of extraction to be determined by the provincial financial office.

**Article 19:** The management of levying the special agricultural products tax will be implemented in accordance with this regulation; where this regulation is found inadequate, implementation is to follow the relevant regulations in "Peoples Republic of China Tax Collection Management Methods."

**Article 20:** Beginning with the 1994 tax year, the special agricultural products tax will be calculated and levied according to these methods.

**Article 21:** The provincial finance office has responsibility for interpreting this regulation.

**Article 22:** This regulation is effective from the day of publication; The "Temporary Regulations of Jilin Province on Levying Agricultural Taxes on Income from Special Agricultural and Forestry Products," issued by the provincial government on 16 February 1985 will at the same time be rescinded.

**Addendum:** Special agricultural products tax taxable products list and tax rates.

Jilin Province Special Agricultural Products List, Tax Rate

Taxable Item	Tax Rate (%) for Producer	Tax Rate (%) for Purchaser	Tax Scope
I. Tobacco Products			
Air Dried Tobacco		31	
Roasted Tobacco		31	
II. Farmyard Products			
Apples, Pears	12		
Other Fruits, Dried Fruit	10		
Gourds Used as Fruit	8		Includes Watermelons, sweet melons
Silkworm Cocoons	8		Includes Mulberry, Tussah Cocoons
Flowers	10		
Nursery Stock	5		Includes Economic Forest Seedlings, Operational Seedlings
III. Aquatic Products			
Aquatic Breeding	8	5	Includes Swamp, Paddy Fish
Fished-for Products	8	5	
Aquatic Plants	8	5	Includes reeds
IV. Forestry Products			
Logs	8	8	
Natural Resins	8	8	
Wood-derived Oils	8		Includes Pinenuts, Walnuts, Hazelnuts etc.
Other Forestry Products			
1. Saplings, firewood, poles, wicker	5		
2. Other	5		
V. Animal Products			
Hides		10	

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Sheepskins, Rabbit skins		10	
Wool Yarn		10	
VI. Medicinal Products			
1. Vegetable Medicinals			
Ginseng	10		Includes seeds, plants, American ginseng
2. Other Vegetable Medicinals	5		
VII. Edible Fungi			
Black Tree Ears, Silver Ears	8	8	
Xianggu mushrooms, Mushrooms	8		
Spores	5		
VIII. Other Special Ag Products			
Honey	5		
Flowers, Ferns	5		

### Jilin Rural Economic Conditions Investigated

94CE0729A Changchun JILIN RIBAO in Chinese  
27 Jul 94 p 2

[Article by Huo Mingguang (7202 2494 0342): "An Investigation of Current Rural Village Conditions in Our Province"]

[Text] I recently traveled to seven rural villages in Siping city, Yitong County, Lishu County, and Gongzhuling city to conduct investigations and after talks and round-table discussions with the cadres and personally visiting various departments and families, I have come to understand some of the conditions existing there.

**Agricultural production in 1994 can be characterized as follows:**

1. One sowing for one stand of crops. The spring planting preparatory work went well this year; they got an early start and most farms had completed seeding the main fields by the end of April. Although the period immediately after sowing was dry, several timely showers fell after 10 May, guaranteeing that the hoped for one crop from one sowing would be realized.

2. Substantial investment in agriculture. This was again the characteristic of agricultural work this year. Siping city has earmarked 600 million yuan for agricultural loans in 1994, of which 300 million will go to grain production while the farmers contribute 200 million of their own funds, for a total of almost 500 million invested in grain production by the city as a whole. Caijia village in Lishu county will invest 700 million yuan in agriculture in 1994, of which 500 million will come from the farmers themselves. Xingshan village is investing 3.65 million in agriculture in 1994, an increase of 700,000 yuan over last year, and 3.27 million of this amount is coming from the farmers. Caijia village is applying 225 kg's of er-an [fertilizer] per hectare, 100 kg's of urea and 40 cubic meters of farmyard manure and are preparing to follow that with starter fertilizer: all these in greater amounts than last year.

3. Rural enthusiasm for cultivation is at high tide. If one considers the institution of the system of household contracts linked to output was what roused the farmers'

unprecedented enthusiasm for production for the first time since the start of reforms, then it can be said that 1994 is the second time their enthusiasm for production has been excited to an unprecedented extent. Where did all this enthusiasm come from? First of all, leadership over agriculture has been enhanced from the center all the way out to the local areas and the leaders have earnestly carried out the spirit of the two work conferences on rural work held by the center and the state council, which greatly elevated the status of agriculture in the national economy, especially since they reiterated that the policy governing land and household contracts linked to production will not change for 30 years; this relieved the farmers' anxieties, and stabilized the general rural situation. The second factor was the movement in the price of grain. When all the levels of leadership announced that the price of grain in 1994 would be raised 20 cents, the farmers said that growing grain was profitable. At Caijia village in Lishu county, the farmers figured it this way: one hectare planted in corn will on the average produce 10,000 kilograms, and each kilogram will sell for 70 cents (after the price increase), for an income of 7,000 yuan; the inputs for one hectare would be 500 yuan for 225 kg's of er-an [fertilizer], 200 yuan for 100 kg's of urea, 500 yuan for ammonium nitrate starter fertilizer, and 80 yuan for potash; farmyard manure costs nothing, seed corn cost 300 yuan, weed killers 200 yuan, and a 300 yuan fee for the land contract; the total costs come to 2030 yuan. Subtracting the costs of production, each hectare of corn would generate a net income of 4700 yuan (net income per hectare in 1992 was 1500 yuan, and in 1993 was 2000 yuan.). In addition to this, currently the price of corn on the market was rising, which also helped stimulate their enthusiasm. Lishu county calculated that if during 1994 the price of each kilogram of grain rose 20 cents, figuring 1993 production levels, this alone would generate 300 yuan in increased income for each of the 600,000 farmers in county. Thirdly, the unscrupulous charging of fees, collection of money and levying of fines has largely been stopped and their burdens in this regard greatly lightened. Some of the counties originally planned to decrease the acreage planted to corn, but in the end all actually increased it. For instance Yitong

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county originally planned to cut corn acreage by 10 percent, but increased acreage by 100,000 mu; for all of Siping city, of corn alone, 400,000 more mu was planted in 1994 than in 1993. As the farmers say, the most fundamental factor is that the government closed the scissors gap between grain and industrial products; despite the fact that the costs of fertilizers, plastic sheeting, and pesticides have also risen, this year the price of grain has risen the most, and it makes sense to cultivate grain crops.

4. The structure of agricultural industry has been adjusted, prompting an across the board development, especially in multiproduct operations and rural village industry, providing an outlet for the surplus labor in the rural villages. In the Siping area raising pigs, cattle and chickens and building vegetable hot houses is a trend on the rise and is growing rapidly. The cattle raising industry is developing fairly rapidly. In 1989 there were only 70,000 head of cattle in all of Yitong county, but by 1993 they had increased to 149,000 head, with an average of 1.74 per household; 40,000 went to market that year, generating a net income of 42.5 million yuan, an average of 427 yuan per household. For the 22 villages in the county, more than 17 have over 5,000 head each, and this includes four villages with over 10,000 head each. The county has already established 14 relatively large cattle markets. In 1993 nearly 141,000 head of cattle were raised in Lishu county, and it is estimated that the 1994 figure will be 180,000 head. Gongzhuling city had 168,000 head in 1993 and estimates the 1994 figure at 200,000. In several places cattle barons have appeared, The Ma Yuan family, in the second commune of Xiangyang village of Kaoshan township in Yitong county, has five members in the household, contracts for 1.2 hectares and raises beef cattle on the side. In 1993 they marketed 130 head for a gross income of 71,500 yuan; subtracting their costs, their net income was over 50,000 yuan. In this same commune, the Tang Xiyou family raised five head of cattle and farmed 1.6 hectares of land; their 1993 net income was over 10,000 yuan. Of the 40 households in this commune, 20 households own 5-6 head of cattle, and the total on hand was 210 head. The pig raising industry is growing even more rapidly. In 1993 there were 700,000 swine in Lishu county and the 1994 estimate is for one million. In 1993 in Gongzhuling city there were 600,000 swine raised and they estimate 800,000 for 1994. Most of these pigs are raised in pens (with plastic tents erected in winter for warmth); they are fed on dry grain and gain weight rapidly. A 30-40 kg piglet can become a 125 kg hog with about three months of feeding; subtracting the cost of the feed, a single hog can bring in a net profit of 100 yuan. Plastic greenhouses are expanding rapidly in some of the villages located near cities or towns or along rail lines and highways. In 1993 there were 492 hectares of greenhouses in Gongzhuling city, and these had increased to 513 hectares in 1994. The acreage for vegetables in Huaide grew from 860 hectares in 1993 to 1000 in 1994. The profit from green house vegetables is tremendous, taking Yangdachengzi village as an example: the net income from every square meter of area is 15 yuan, a good dozen times that for raising grain crops. Chicken farming

is also on the increase. In 1993 there were 700,000 egg-laying chickens in Nanweizi township in Gongzhuling city, and 1.5 million fryers. Net income for each egg layer was 15 yuan, and one yuan for each fryer. In addition to this, many of the villages engage in weaving, making straw baskets, straw screens, raise mushrooms, carve stone, haul sand, provide labor services out of town, and so forth.

5. Township enterprises are developing quickly. In 1994 the township enterprises in Siping city accelerated their growth: production value rose 62.5 percent for the first quarter as compared to the same period of the previous year, and profits increased 32.4 percent. Especially since the entire city began the movement to study the experiences of Hongzuizi in running enterprises, a great impetus has been given to development of various township enterprises in the city and the counties. Lishu county is planning for a production value of 1.76 billion yuan out of the township enterprises in 1994, an increase of 35 percent over 1993, and for a realized profit of 140 million yuan, an increase of 37.6 percent. In sum, the political situation in the rural areas is good, the economy is expanding, social conditions are stable. There do, however, exist some problems:

(1) Law and order work in the rural villages has to be strengthened. The villagers reported that armed robberies, beating and other such offenses often occur on long-distance busses: they have no sense of security when they board the busses.

(2) The farmers are at once pleased and worried about the rise in grain prices: they worry that they have not seen any official document on it, and that saying it will not mean anything.

(3) Prices on agricultural production materials are skyrocketing, for instance, er-an [fertilizer] is selling for 2,500 yuan a ton in some places.

(4) The collective economy is relatively weak in the villages, in some of the villages it has become an empty shell. Xibaishan village in Baishan township in Lishu county has over 700,000 yuan in external debt; Shijiabao village in Shijiabao township has over 900,000 yuan in external debt. At the same time there is a trend in increased high interest loans in rural areas: the loans generally run at 3 to 4 percent, with highs at 5 to 6 percent.

(5) There are still a great many poor and distressed households in the villages. Generally the impoverished households represent about 5 percent of the rural households, the high level is 6 to 7 percent.

(6) The cadre in some of the villages are aging. Dijuzi township in Yitong county has a 70 year old geezer still acting as village cadre. The villages reported that the young and capable people are out trying to make money and do not want to become cadres. These problems exist in some of the villages in varying degrees, and they should be given the attention they deserve and be resolved.

#### Some suggestions:

1. The concept of agriculture being the basis must not be shaken. If we are ideologically irresolute on this point or



fail to emphasize it enough, agriculture will decline: this has been already proven by experience. As long as we earnestly implement the spirit of the two agricultural work conferences called by the center, the State Council, and the affiliated departments within the province, base our work on the real situation, work with the materials locally available, do what we can do, cultivate what can be cultivated, raise whatever can be raised, give full play to the local area's natural advantages, then we can stabilize the villages, we can develop them, and they will have a future.

2. Concentrate on natural advantages. Our province is a major grain producer; producing much grain we also have much straw, especially corn stalks and rice straw, which are an abundant source of feed material. If we make comprehensive use of this food resource, develop the feed industry, the provincial animal husbandry industry could have a tremendous development. In this manner, we would not only have a superiority in grain, but have an advantage in the livestock industry. These two advantages are also a basis for expansion of the foodstuffs industry, and from this in turn could bring forth some processing industries which are linked to grain and meat processing; this is of tremendous importance to our province's economic development. I suggest that the concerned departments give considered attention to this area of endeavor; if it is seriously worked at for several years, great rewards could be garnered.

3. The solution of surplus manpower in the rural villages lies in vigorous expansion of township enterprises and multiproduct operations; it is also the necessary road to riches for the villages. The township enterprises are growing rapidly and the results of their work is not bad, but not every little village can run such enterprises. Looking at it in this way, the future of multiproduct operating becomes even more wide open. One does not need much capital for a multiproduct operation, such as raising a cow, pigs, chickens, ducks, geese, fish, doing weaving, gathering, and so forth: the technologies are simple; all one needs is some manpower, the will to work hard, some small ability, and the operation succeeds. Experience should be made public, it should be forcefully promoted, broadly popularized. These methods of solution should be developed, so that the farmers have something to do in all four seasons of the year.

4. The village markets should be well run. First, leadership over the markets should be strengthened, and the farmers led into the markets. Secondly, propaganda and education in the economics of farmers' markets should be enhanced, bolstering the farmers' understanding of markets. The village market is a collection and distribution place for agricultural side products and is a place where farmers are taught to change their ways of thinking. While the farmers are receiving income from exchanges made in the market, they are also acquiring information. The market is a type of network, information is exchanged with great rapidity, and so the correct management of the farmers' market has a major impact on their productive activities. It is suggested that all levels of the government make certain that

farmers' markets are well run. 5. We should be absolutely clear that the heart and goal of rural work is development of the productive forces, allowing the farmers to increase their income, and become well off as soon as possible. This is determined by the nature of our country and is the main goal of serving the people wholeheartedly. For these reasons, whatever is of benefit to the farmers should be accomplished with all our might, doing our utmost wherever it is needed, working realistically, striving to promote the beneficial and to discard the disadvantageous. As far as the extraction of illegal fees, unmerited fines and the collection of funds and other such improper activities which increase the farmers' burden or harm the rights and interests of the people should be resolutely opposed so the positive action wins over the hearts of the people.

6. Solid establishment of basic level organizations in the rural villages should be sought; especially the party branches should be well established: this is the organizational guarantee of the implementation of the party's line, principles and policies. We should cultivate a group of young cadres having culture, knowledge, instincts, and capabilities; we should have sympathy for the difficulties the basic level cadres face, we should support them, and help them do their work well, enhance their disciplinary education and their legal education, so that they honor and obey the laws, and become leaders in the construction of the socialist new rural villages.

### Liaoning Reports 1994 Crop Area

94CE0671R Shenyang LIAONING JINGJI RIBAO  
in Chinese 23 Aug 94 p 1

[Summary] In the first half of 1994 the total crop area in Liaoning Province was 54,342,000 mu, a decrease of 113,000 mu from 1993. The grain area was 45,489,000 mu, a 0.54 percent decrease; the cash crop area was 3,581,000 mu, a 1.6 percent increase; and the area sown to other crops was 5,272,000 mu, a 1.7 percent increase.

The wheat area was 2,436,000 mu, an 11.3 percent decrease; the soybean area was 4,778,000 mu, a 2.0 percent decrease; the corn area was 21,972,000 mu, a 3.4 percent increase; the bean area was 572,000 mu, a 51.8 percent increase, and the potato area was 1,572,000 mu, a 1.9 percent increase.

The oil crop area was 2,166,000 mu, a 2.2 percent increase; the cotton area was 386,000 mu, a 4.5 percent increase; the beet area was 432,000 mu, a 24.1 percent increase; and the tobacco area was 203,000 mu, a 22.9 percent decrease. The peanut area was 1,542,000 mu, an increase of 168,000 mu, or 12.2 percent; the sunflower seed area was 334,000 mu, 3.3 percent increase. The produce area totaled 4,848,000 mu, an increase of 429,000 mu or 9.7 percent, of which the vegetable area was 4,668,000 mu, a 5.6 percent increase.

The wheat area has not met the provincial guidance plan of 4 million mu, and the cotton area has not met the state plan of 800,000 mu.

### Heilongjiang Farmer Cash Income Increases

94CE0671T Harbin HEILONGJIANG RIBAO in Chinese 18 Aug 94 p 1

[Summary] By the end of June, the per capita cash income of farmers in Heilongjiang Province was 767.1 yuan, a 49.5 percent increase over the same period in 1993 after deducting for inflation.

### Provinces, Regions Report Grain Storage

#### Jiangxi Grain Storage

94CE0671M Nanchang JIANGXI RIBAO in Chinese 24 Aug 94 p 1

[Summary] As of 20 August, Jiangxi Province had put 1.453 billion kilograms of summer grain in storage, fulfilling 78.16 percent of the summer procurement plan.

#### Ningxia Wheat Storage

94CE0671L Yinchuan NINGXIA RIBAO in Chinese 7 Aug 94 p 1

[Summary] As of 30 July, Ningxia had put 54,310,000 kilograms of wheat in storage, an increase of 23,150,000 kilograms over the same period in 1993.

#### Xinjiang Wheat Storage

94CE0671N Beijing JINGJI RIBAO in Chinese 31 Aug 94 p 1

[Summary] As of 15 August, Xinjiang had put 570,000 tons of wheat in storage, an increase of 275,000 tons over the same period in 1993.

#### Hunan Grain Storage

94CE0671O Changsha HUNAN RIBAO in Chinese 28 Aug 94 p 1

[Summary] As of 20 August, Hunan Province had put 2.26 billion kilograms of grain in storage, accounting for 68 percent of the state procurement task, and was an increase of 1.835 billion kilograms over the same period in 1993.

**Widespread 'Red-Envelope' Phenomenon Analyzed**  
94CM0355A Shanghai FAXUE [JURISPRUDENCE]  
in Chinese No 151, 10 Jun 94 pp 7-10

[Article by Liu Luoying (0491 5012 5391) and Xiong Guochang (3574 0948 2490): "'Red-Envelope' Phenomenon Analyzed In Context of Market Competition"]

[Excerpt] 1. Variety of "Red-Envelope" Phenomenon

With China's reform and opening to the outside deepening, the commercial economy flourishing and market competition increasingly intense, handing out "red envelopes" has become a competitive tactic in the daily and intense competitive struggle.

"Red envelopes" are handed out in a variety of circumstances: there are the happy-occasion "red envelopes" used to celebrate work achievement or business start, to mark ceremonial occasions such as opening of athletic events or work projects, laying of foundation, sailing of maiden voyages or opening of new rail lines, to observe other occasions such as saying farewell, dedicating new buildings, weddings, etc.; there are the business "red envelopes" handed out when arranging commodity preview and appraisal, holding business meetings, placing sales orders, staging trade fairs, receptions, symposia, social gatherings, press interviews or conferences, etc.; then there are the social-contact "red envelopes" which some localities and work units use for business objectives of invigorating enterprises or the local economies, bidding for investment projects, ensuring supply of critical raw materials, and selling overstock, low-quality products.

In terms of categories, there are the cash "red envelopes" containing renminbi, foreign currency, stock certificates, credit cards, deposit receipts, etc.; there are "red envelopes" of products or goods such as jewelry, gold ornaments, electronics products, real estate properties, vehicles, etc. In terms of values, "red envelopes" range from tens to hundreds of thousands of yuan, values which far exceed the original connotation of the words "red envelope."

**2. Special Characteristics of Present-Day "Red Envelopes"**

From the traditional use of "red envelopes" for facilitating friendly exchanges and relationships, it has become a tactic for competition, and the following are its salient characteristics:

(1) Dual Purpose. "Red envelopes" serve a dual purpose which can be both legal and illegal. In terms of the legal aspects, they are used legitimately to reciprocate courtesies and to celebrate or congratulate certain occasions or accomplishments, and these should be encouraged. But the illegal aspects include using them for exchange "power" and "money" in situations where no business deal can be made without giving or receiving favors and, even with such favors, business deals are often done haphazardly. In our view, this type of "red envelopes" usage should be discouraged or banned.

(2) Openness and Concealment Coexist. As a form of exchange in the economy, the use of "red envelopes" can be observed through a glass door, as it were, but cannot be touched. When a certain locality wants to invigorate the local economy, attract technology, investment, and personnel talent, certain departments and units in that locality, citing the goal of helping to improve local economic conditions and using as pretext the regulations in "red-tagged documents" or the need for convening collective study sessions, would rely on handing out "red envelopes" to win over the other competing parties, and this is done at least with a certain degree of transparency and openness. But when "red envelopes" are handed out, they are accepted "under the table," not reported to the work unit and certainly not entered in the books; they end up in the individuals' wallets. Therefore, behind the slogans ostensibly of serving the reform and opening up process or invigorating the local economies are any number of economic crimes.

(3) Considerable Room for Doing as One Pleases. Looking at the use of "red envelopes" in recent times, it appears that "red envelopes" are handed out based on the needs of the leading cadres in a giver unit and these needs determine the scope, method, level, value, and number of recipients; "red envelopes" are not used for the business of the party or people, as some claim they are. In reality, "red envelopes" are divided into various levels and have different values. The number of levels and the greater or lesser values of "red envelopes" are mainly determined by the responsible managers of a giver unit who take into account how much benefit the organization or various individuals would expect to receive in return. Some managers assign the levels of "red envelope" based on the levels of the [recipients'] positions; others by the extent of real power [held by the recipients] and their future contact value. Because the levels of "red envelopes" are different, the values of "red envelopes" are also different. For example, the value of a "red envelope" presented to an executive is much greater than that given to his support staff, and the value [of "red envelopes"] presented to a leading cadre who wields real power and has great contact value is much greater than that handed to other run-of-the-mill cadres; there are, therefore, great differences between these two levels of "red envelopes." The difference depends entirely on the decision of the giver unit or individual, and there is therefore considerable room for doing as one pleases.

**3. Abuses of Present-Day "Red Envelopes"**

One abuse is the disruption of the market economic system. A market economy is in reality a competitive economy. When "red envelopes" become a tactic for competition, they take on a certain bribery coloration. Some enterprises, in order to sell their low-quality or unsold goods which put them at a competitive disadvantage, have no qualm in using "red envelopes" to get ahead by bribing the buyers to get such goods sold; in some enterprises, managers or employees, taking advantage of their positions or being on the inside, think nothing of



sacrificing the benefits of their units; they accept "red envelopes" and [consequently] go a distance for what is close at hand, take seconds over the best or the more expensive over the economical, and they buy inferior goods and let the enterprises take the losses; even goods "with the greatest sales appeal" are sold at discounts by these corrupt businessmen; the end result of this kind of competition is that inferior goods flood the market while goods in great demand are in short supply and whose prices skyrocket, causing endless complaints from the consumers, seriously hurting their benefits, disrupting the socialist economic order and affecting the smooth implementation of reform and opening.

Another abuse is the corruption in the cadre rank and file. In order compete for needed raw materials and technology or in selling their products, the enterprises that try to make a profit and the regions or localities that seek to promote economic development would present "red envelopes" to organizations or individuals who control or possess resources, capital or technological facilities; sometimes, these [red envelopes] are presented out of sincere gratitude, but invariably they are handed out because they were expected, and frequently "the givers would be smiling on the outside, cursing on the inside," or "seeking a favor with one hand, hiding a knife in the other"; and an absolute majority of red envelopes do end up in individual wallets. The people who control the resources and have the power do not consider their power as coming from the people; they use their power recklessly, their greed knows no bound, the relationship between individuals has turned into one of exchanging power and money, and the intimate comradeship developed [over time] among fellow cadres within the party has turned into a relationship of "oil and water." In the series of bribery cases that have come to light, some people who hold important positions and exercise real power have been implicated and they will be remembered [for their deeds] for generations to come. To a large extent, competition by "red envelopes" in economic exchanges has become a hot bed for bribery and corruption; it is corrupting the cadre rank and file, hurting the image of the party and government, leading some in the masses to doubt the Communist Party, and to question whether we in fact are carrying out Socialism and whether our socialist enterprise can succeed.

A third abuse is the obstruction in attacking economic crimes. By using "red envelopes" as a competitive tactic, the local economies in some localities and regions have in fact developed rapidly, and their enterprises reinvigorated, but some economic crimes have also escaped detection under the covers of "development" and "reinvigoration." When bribery cases are investigated, some people who are implicated would publicly defend themselves by citing their success in reinvigorating the economy, while others would fault the investigative department, blame the investigation for the failure to reinvigorate the economy, and argue that the more the investigators probe into economic cases, the more difficult it would be for the economy to take off; as a result, investigators of some obvious bribery cases are put on the defensive; they find it difficult to

investigate, arraign, indict or convict, with the result that the guilty parties are released or given only light punishment. [passage omitted]

**Arbitrary Collection of School Fees Criticized**  
94CM0401A Beijing ZHONGGUO JIAOYU BAO  
in Chinese 24 Aug 94 p 1

[By own reporter Lai Qunyang (6351 5028 7122): "The Problem of Fees Charged for Attendance at Middle and Primary Schools"]

[Excerpts] Although measures have been adopted everywhere to enhance administrative control of charges for attendance at schools, such as charging by "liang zheng" [0081 6086] certificates and the identity card system of charging, there is still quite some confusion in the way attendance at middle and primary schools is being charged. Judging by conditions in Hunan Province, this state of affairs manifests itself mainly in the following areas:

First, raising the norms of charges at each level. Originally, the province had provided clear and distinct norms for charges at middle and primary school, but many localities have raised these norms for charges at middle and primary schools at every level, far in excess of the standard norms set by the province. As we understand, the standard norms for charges in Xiangtan City for the second semester of 1993 had been: 49-55 yuan at primary schools, 114-120 yuan at junior middle schools, and 286-311 yuan at senior middle schools. A certain county had added somewhat over 30 yuan per student on top of these standard norms, and in one township of this county a further additional 50 yuan was required from each student, while some schools, without authority to do so, collected "time extension fees," "work-study fees," etc. In this way, the charge for junior middle school rose to somewhat over 210 yuan, and for primary school at least to somewhat over 80 yuan, which by far exceeded the standard norms set by the province.

Second, willfull addition of items to be charged for. According to provisions set by the province, there were 13 items, such as text books, etc. that could be charged for. However, some schools increased these items to somewhat over 20. These extra items were willfully determined by the schools themselves, or collected through an agency, such as personal insurance fees, township government tax, etc.

Third, under the new situation, new circumstances arose, the character of which was hard to specify and which were hard to deal with appropriately. For instance, the phenomenon of high charges for "specially selected students" [ze xiao sheng] had spread over the years; in the past, it had been mainly limited to the provincial capital, but after 1993 had blossomed forth all over the place. Furthermore, these "specially selected students" had mostly to be approved by the government of the particular level involved, so that this gradually became a purely government activity. Then there is also the borrowing of funds to operate schools—generally 300 yuan for each primary

school pupil and 500 yuan for each middle school student—used for the repair of hazardous middle school and primary school buildings or to improve general instruction facilities.

There are a variety of reasons for the “confused” state of affairs in the charging of middle and primary school fees; some problems relate to the government, some to society, and some to the schools themselves.

First, the serious inadequacy of allocations of educational funds, which left no other alternative but to raise school fees. According to statistics for a certain city in Hunan, 21.021 million yuan should have been allocated in 1992 as regular educational funds, but only 18.68 million yuan were actually allocated, leaving a shortage of 2.341 million yuan. In 1993, 33.04 million yuan should have been allocated, but only 17.035 million yuan were actually allocated. The inverse proportion was reduced by almost 2 million yuan, but the shortage increased to as much as 16.007 million yuan. Faced with this shortage of operating funds, the city government decided to collect, as from the beginning of 1993, for each primary school pupil for each term a sundry fee of 33 yuan and a “public-run school fee” [min ban fei] of 1.5 yuan. For junior middle schools, the sundry fee was 35 yuan and the “public-run school fee” 2 yuan per term. These fees were also listed in 1993 by the finance, commodity price, and educational agencies as standard income at middle and primary schools, in order to balance budgets. The mentioned two items almost doubled the fees charged for first grade primary school attendance throughout the entire city, as compared with 1992.

Second, some local governments increased charges to raise money for the repair of hazardous school buildings and for the building of new schools. According to 1992 statistics, there had been over 1.3 million square meters of hazardous middle and primary school buildings throughout the province, accounting for 2.38 percent of all middle and primary school buildings. The serious flood disaster of 1993 increased the hazardous school buildings to 1.63 million square meters, raising their percentage to 2.87 percent. To repair all these hazardous school buildings, many places resorted to collecting fees from the students on the principle “whoever studies must pay.”

Third, as the surcharge for rural education proved a sterile source, most of the additional expense was shifted to the students to pay. In the past, the surcharge for rural education in Hunan Province had been collected by the financial departments of the local governments together with the agricultural tax, or when grain procurement contracts were signed with the peasants. Since 1993, grain purchases throughout the province had been decontrolled, so that this channel of collecting the surcharge, namely together with grain procurements, had been lost, which in turn increased the difficulties of collecting the surcharge. According to statistics at the time of closing accounts at the end of the year, only 60 percent had been collected throughout the province in 1993 of the 406.73 million yuan surcharge for rural education. In some places the

government had no other alternative but to change the system from collections in connection with grain procurements to a system of collecting from whoever goes to school, making it a one-time collection at the beginning of the term by the schools themselves directly from the students. For instance, the township government of Mapoling in the suburbs of Changsha explicitly prescribed that the schools shall collect from the students an annual educational surcharge of 50 yuan, to be collected in two installments.

Fourth, the impossibility to radically eliminate the addition of unjustified levies—a kind of “joining the trip”—by outsiders. Of the somewhat over 30 kinds, there were mainly the following items that were added to the fees charged the students: insurance costs, garbage disposal fees, rat extermination fees, greening fees, and family planning propaganda charges. Before the start of school in the autumn of 1993, a certain township chief of Xiangyang County impressed on the heads of the various school districts: “When schools are about to open, you must make sure of three things: the effective collection of the agricultural tax, of the special agricultural and forestry products tax, and of the educational surcharge; if such are not properly collected, you are not permitted to start school.” This caused a six days’ delay to the start of schools in that township.

Fifth, publishing houses and the educational institutions practice tie-in sales to a very serious extent. A sample survey by one bookshop in Changsha revealed that there were 124 kinds of review texts for primary schools and somewhat over 20 kinds for middle schools, and that quite a few bookshops forced the schools through tie-in sales to buy certain materials. According to statistics, the charges for books and textbooks had doubled in 1993, compared with the previous year, mainly due to the excessive tie-in sales of printed materials.

### **Worsening Rural Social Order**

*94CM0401B Hong Kong MING PAO in Chinese  
16 Aug 94 p 10*

[By own special correspondent Jing Ji (5427 2765): “Social Order in Rural Areas Deteriorating Day by Day, Constituting a Difficult Problem During the Last Years of the Century, Experts Point Out”]

[Excerpt] All relevant data indicate that criminality among peasants in Mainland China shows a tendency of serious deterioration—the crime rate is going up. In some villages, cases of theft, robbery, kidnapping, rape, and murder have become almost daily occurrences; “train and highway robbers” are rampant, gangs of hoodlums commit acts of violence, and even “underground” antisocial forces have appeared and secret societies have been organized. According to a survey by the Reform-Through-Labor Bureau of the Ministry of Justice, 56.98 percent of the detainees held at prisons and reform-through-labor camps throughout the country had been peasants prior to their arrest. Of all the 530,000 serious criminal cases last year

over 160,000 had occurred in the villages. Criminality has also become very serious among peasants, male and female, who go to the cities to find work.

Statistical data reveal that there are 710,000 organizations for public security and order in the rural areas of the mainland, but not even half of them are truly effective and capable of preventing, controlling, and stopping the commission of crimes. In some particular villages the entire village organization is controlled by evil forces who will act as protective umbrellas for local ruffians and hoodlums as they bully and oppress the people. When analyzing the "weakness" of the basic-level organizations of state power, experts have said that the dispersal of the "subjects of village interests" as against the assertion of individual peasant interests has strengthened the peasants' sense of independence, and this has resulted in a weakening of basic-level state power in its ability to effect administrative control over the peasants; there is also no sound public order defense organization among the peasants themselves.

Experts believe the rapid development of China's rural economy during the last ten years has raised the living standards of the peasants, and great changes have also occurred in their value concepts, consumption concepts, and behavior patterns, with a greatly increased desire for

materials and money. However, economic development in the rural areas has been extremely uneven; the disparity between rich and poor, as between regions, between city and countryside, and as between individuals, has widened, and this polarization has become very serious. It has led to a large increase in social contradictions and frictions, and all these strained personal relations, disputes over land, wooded areas, sites for house constructions, and over outstanding debts are potential hotbeds for crimes. There is also the problem of unfair distributions in the rural areas. Some peasants, stimulated toward high consumption and out for leisure pursuits, are now driven by the desire for consumption, and as they have no means of legally acquiring the wherewithals, they will in the end decide on reckless moves, resort to theft and robbery, and go in for other unlawful ways to acquire property.

Experts also believe that general education in the rural areas has generally not kept pace with economic developments and is not meeting the needs of the peasantry, and that this lack of education presents an opening for the entry of feudal superstitions, superstitious sects and secret societies, which have by now become so prevalent, and that this is also one of the reasons for the increasing criminality in the rural areas.



**Role, Tasks of Militia Examined****Actively Maintain Order**

94CM0373A Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese No 6, 9 Jun 94  
pp 28-30

[Unattributed article from series "Four Lectures on Militia Political Indoctrination in 1994": "3. Militia Must Make a Positive Contribution in Safeguarding Social Stability"]

**[Text] Stability Supersedes All Else**

Comrade Deng Xiaoping said: "Of all China's problems, the one that supersedes all others is the need for stability. Without an orderly environment, nothing can be accomplished, and achievements already made may be lost." Comrade Deng Xiaoping made this important statement from the high plane of a summarization of negative and positive historical experiences, and a profound analysis and study of the international and domestic situation in the new period. He made it in connection with how to maintain socialism, halt turmoil, and guard against peaceful evolution. Peace and development are two main themes in the world today, but this does not mean there is no international class struggle. The Western nations are always seeking to get all socialist countries to abandon the socialist course and ultimately embrace international monopoly capitalist rule and the capitalist road. Capitalism dreams about ultimately triumphing over socialism. It used to use weapons, atom bombs, and hydrogen bombs, but this met with opposition from the people of the world. Now it is waging a world war without gunsmoke in a vain attempt to produce the peaceful evolution of socialist countries. In recent years, Western opinion has maintained that the reform and opening to the outside world that the Third Plenary Session of the 11th party Central Committee proposed is capitalism. Through practice, however, they slowly came to understand that we are adhering to socialism. Thereupon, Western anticommunist forces greatly intensified their peaceful evolution activities against us. They employed economic sanctions on the one hand, and turned on their propaganda machines to foment trouble on the other to provide great encouragement and comfort to so-called democratic factions and so-called opposition factions in China—who are actually the scum of the nation—doing all possible to create turmoil. Looking at the destiny of world socialism and the real interests of the Chinese people in long-range development terms, Comrade Deng Xiaoping emphasized the extreme importance of resisting peaceful evolution, saying staunchly: "As long as the Chinese flag waves, China will have very great influence," and "so long as China does not collapse, one-fifth of the world's population will maintain socialism. We have full confidence in the future of socialism." Comrade Deng Xiaoping proposed five decisive actions for opposing the peaceful evolution plots of Western nations: First is good performance in construction and reform. "The key to whether China can stand up to hegemonism and power politics to maintain our socialist

system lies in its ability to make the economy grow fairly rapidly in realization of our development strategy." Second is the need for forthright opposition to bourgeois liberalization, dealing harshly with persons who violate criminal law by perpetrating bourgeois liberalization. Third is greater education, "educating our armed forces well, educating our dictatorship institutions well, educating Communist Party members well, and educating our people and youths well." Fourth is the need to attack resolutely all criminal activities according to law. "We must persevere in working at multiple tasks at the same time, and working with might and main, reforming and opening to the outside world with one hand and attacking all criminal activities with the other. Both hands must be tough. Soft hands will not suffice for attacks against all sorts of criminal activities and the eradication of repulsive things." Fifth, stability supersedes all else. "The key to work on the four modernizations and on reform and opening to the outside world lies in order." Whatever obstructs stability must be opposed; there can be no yielding; there can be no giving in." "We must resolutely halt disturbances. When disturbances occur in the future, they must be resolutely halted to maintain order."

Comrade Jiang Zemin said: "The party and the state's basic policy and grand design for work during 1994 has been set. All work must be subordinate to and serve the grand design of seizing opportunities, intensifying reform, expanding the opening to the outside world, promoting development, and maintaining order." The key to realizing the party and the state's grain work design lies in correctly handling the relationship among reform, development, and stability. Reform is the motive power, development is the goal, and stability is the prerequisite. Without order, the achievements of reform and development may vanish overnight. Our militia and our reserves must cherish the grand design, fully realize the crucial importance of order, and consciously take the initiative to make a positive contribution to the safeguarding of social stability.

**The Militia Must Become a Backbone Force for Safeguarding Social Stability**

China's Constitution provides: "The armed forces of the People's Republic of China belong to the people. Their mission is to consolidate national defense, to oppose aggression, to protect the motherland, to protect the people's peaceful labors, to take part in national construction, and to strive to serve the people." The Militia Code provides that "the mission of the militia is "to take an active part in socialist modernization, to take the lead in fulfilling production and other tasks; to shoulder combat readiness duties, to protect the frontiers, and to safeguard social order. The militia must be ready at all times to serve in the armed forces and perform combat, resist aggression, and protect the motherland." Clearly, full use of the role of the militia and the reserves in maintaining social order and maintaining social stability is an important mission that the party and government have conferred.

During an inspection in Fujian Province during February 1994, Central Military Affairs Committee vice chairman

Liu Huaqing [0491 5478 3237] said: "The militia is a wonderful corps. The militia in every county and city must not only learn how to fire a rifle and fight, but more important, they must play a fine leadership role in the building of spiritual civilization. In establishing a fine social atmosphere, in taking part in carrying out comprehensive control work in society, in the battle against corruption, and in the building of the economy, they must become a new force that serves as a fine model for the broad masses." Vice chairman Liu's instructions affirm the position of China's militia. It points the way in which the militia and the reserves are to play a role in the socialist market economy during this new period.

**1. The Militia Must Become a New Force in Economic Construction.** The economy is the life blood; development is the rationale [yingdaoli (4289 6670 3810)]. Development of the economy is the central task of the party and government. It is also the primary way to increase the material and cultural standard of living of the militia, the reserves, and the broad masses of the people. Comrade Deng Xiaoping said that, no matter how expressed, the party's political line is "essentially the four modernizations, foremost of which is building the economy, developing the national economy, and developing society's productivity. This task must be seized firmly and not delayed for a single day." China's militia is a mass armed organization that is not excused from production. The militia rank and file are found on every battle line and in every trade and industry. They are also young people who are organized, disciplined, and skilled in attack. They should become a fresh force in economic construction, and truly are a fresh force in economic construction. The country's economic tasks for 1994 are intensification of reform, expansion of the opening to the outside world, enhancing and improving macroeconomic regulation and control, energetically readjusting the economic structure, spurring technological progress, actively opening markets, increasing economic returns, controlling currency inflation, and maintaining the sustained, rapid, and healthy development of the national economy. In the fulfillment of these tasks, the militia and the reserves have bright prospects. They must strengthen confidence, work with one heart and one mind, keep in mind the overall interest, and struggle arduously. They must support reform forthrightly, creating a fine social environment for the smooth conduct of every major reform measure. Naturally, their most fundamental, most common, and greatest task is to do a good job in their vocation. They must prime themselves to make a contribution in whatever position they occupy. In the building of state and local key projects, the militia must be organized in a planned, varied, and constructive way to complete urgent, difficult, dangerous, and important tasks. Rural militia must take the lead in developing science and technology to invigorate agriculture, take the lead in orienting toward the market, and take the lead in working hard to become prosperous. They must be sure to produce results on the important "rice bag," "market basket" and support-for-the-needy issues that have a bearing on the

national economy, the people's livelihood, and social stability. Militia in city and countryside industrial and mining concerns must keep the cardinal principles in mind and take the overall situation into account. They must employ the spirit of masters in hastening the reform of socialist market economy institutions. In the transformation of state-owned enterprises' operating mechanisms, in particular, they must handle correctly the readjustment of benefits and interests, actively provide counsel to enterprises, and set up "militia positions," "militia teams (or units)," "militia production lines," "militia projects," "militia lathes," and "militia counters" for the widespread conduct of labor competitions, technical tournaments, tackling of scientific and technical problems, and double increase and double economy campaigns [i.e., campaigns to increase production and practice economy, and to increase income and reduce expenses] as a means of invigorating enterprises and improving their economic returns.

**2. Militiamen Must Become Models in Combining Labor and Arms.** Maintaining the system of not excusing the militia from production, combining labor and arms is the fundamental way to maintain strong vitality in the militia organization. It also sets the character of this mass armed organization that does not excuse its members from production. Combining labor and arms, one hand holding a hoe and the other hand holding a rifle, one hand producing and the other hand fighting, using production to support the front line and using combat to protect production is a fine tradition that China's militia created during the war years. During the period of building socialism, China's militia both carried on and carried forward the fine tradition of combining labor and arms. Not only did it act as a leader and a vanguard in production, but it underwent hard military training during production down time. This spurred production and enhanced the building of the militia. The campaign to use labor to nurture military forces, which the militia reserves conducted during this period is a major development of the fine tradition of combining labor and arms. Launching of the campaign to use labor to nurture military forces helps spur development of the local economy, helps reduce the burdens of the government and the masses, and helps raise the militia's and the reserve's ability to mobilize rapidly and carry out combat missions. It helps the nation and the people, and it helps build a stronger national defense reserve force. The campaign to use labor to foster military forces should be better conducted in an organized and planned way. Thus, it will be able not only to attain the goal of "nurturing military forces, but can play a major role in invigorating the local economy. It can produce political benefits, military benefits, economic benefits, and social benefits.

**3. The Militia Must Play a Leading Role in Building Socialist Spiritual Civilization**

Comrade Jiang Zemin said: "Spiritual civilization must continue to be built. With the establishment of socialist market economy institutions, the country's tasks in building socialist spiritual civilization are becoming

increasingly daunting." The militia's fondness for studying to get ahead, and its high political consciousness should play a leading role in the study and propagandizing of the party's line, plans, policies, reform and opening to the outside world, working hard to become prosperous, and supporting the poor and helping the needy. Because of its keen ideology, its rapid acceptance of new things, and an overall caliber that is better than that of the mass of people, the militia should play a model role in learning from Lei Feng and Xu Honggang to build socialist spiritual civilization. The broad masses of the militia should consciously take heroic personages like Lei Feng and Xu Honggang as their model, take the lead in establishing a new socialist atmosphere, enthusiastically support young volunteers' activities, and act as models in the building of socialist spiritual civilization. They must do a good job of teaching patriotism, socialism, and collectivism; they must emphasize ideals, making a contribution, and unity; and they must foster a spirit of arduous effort for wholehearted service to the people.

**4. The Militia Must Be Protectors of the Social Order.** The international situation today is tending toward multipolarity in which some Western nations are unwilling to see a powerful China appear in the world. They seek to "westernize" and "splinter" China. They exert all sorts of pressures on China, using both open and secret channels to carry out all kinds of infiltration and sabotage activities. They act in concert with a small number of people engaged in bourgeois liberalization with the aim of intensifying a "peaceful evolution" strategy against China. We must further bolster the state's people's democratic dictatorship machinery to consolidate China's socialist system. As an important tool of the people's democratic dictatorship, the militia can play a role that other armed organizations cannot play in maintaining social order, guarding against social disturbances, and protecting national political, economic, and social stability. The militia has a vast number of people who are well informed about the enemy and society. When anything suddenly occurs, they will come at once when summoned. They are available at all times to deal with all sorts of suddenly occurring situations. In some border areas and places that have no garrison forces and in which the police are insufficient, in particular, the militia are responsible for safeguarding social order. They can play a major role in making up for the lack of military and police forces. The most common and largest task of the militia in working together with public security units to maintain social order is to safeguard the normal order in their own units and areas, acting as guardians of the social order. These tasks are largely as follows: protection of factories, mines, shops, and roads; assisting public security units crack down on criminal activities; protecting major targets, and safeguarding the security of the country and of the people's life and property; and carrying out emergency movement missions to make the militia guard detachments set up for the maintenance of local social order organizationally complete, properly staffed, and well equipped, their plans complete, their response rapid, and

able to be called upon, assigned and function when needed, becoming a backbone force for the maintenance of local social order.

#### **Effort To Improve Military and Political Caliber To Create a Superb Militia**

In order to be ready to fulfill their mission of defending the motherland, building the motherland, and safeguarding social order, the rank and file of the militia and reserves must have a firm understanding of their mission. They must conscientiously discharge their duties, improve military and political training, and improve personal qualities to create a superb militia.

**1. Study Seriously the Selected Works of Deng Xiaoping, and Use Comrade Deng Xiaoping's Theory on the Building of a Distinctively Chinese Brand of Socialism To Arm the Mind.** Comrade Deng Xiaoping is the chief architect of China's socialist reform and opening to the outside world, and modernization. He is the founder of the contemporary Chinese Marxism of building a distinctively Chinese brand of socialism. *The Selected Works of Deng Xiaoping* are rich in content, broad and profound, and easy to understand. In studying *The Selected Works of Deng Xiaoping*, militia and reserve personnel must relate them to realities, devote much effort to reading the original works from which they are selected, study their basic concepts, grasp their spiritual essence, strive to increase ability to understand problems, and enlarge the conception of what is for the common good. Comrade Deng Xiaoping's instruction that "stability supersedes everything else" must be a major component of study today. It must be profoundly realized that China's hope lies in reform and opening to the outside world, and that an orderly political environment is essential to reform and opening to the outside world; disturbances must be dealt with straightforwardly; the party's basic line must be adhered to, long-term peace and good government realized, and the necessity for strengthening the dictatorship of the proletariat profoundly understood. Without dictatorial methods, safeguarding the country's sovereignty and security, and safeguarding social order are impossible. Comrade Deng Xiaoping said: "Our socialist nation is powerful. As soon as departures from socialism are found, the state machinery intervenes to rectify the situation." After putting down the disturbances and counterrevolutionary rebellion that occurred in Beijing, Comrade Deng Xiaoping said: "Our use of martial law methods this time to solve the disturbances problem was extremely necessary. If necessary in the future, when disturbances occur, will be take stern measures to eliminate them with all possible speed so as to ensure that China is not subject to any outside interference, thereby safeguarding national sovereignty." We must maintain a clear mind in understanding the instructions of Comrade Deng Xiaoping from the high plane of safeguarding national sovereignty and security, and safeguarding social order. The words and deeds of our militia must contribute to helping improve the party and government, must help solve real problems, must help advance the unity of the people, and must help safeguard social order.



**2. Improvement of Military Quality.** The militia bears the sacred mission of defending the motherland. Fine military quality is an important means for fulfilling this mission. The militia must strive to improve their own military quality. They must study diligently and train hard as the general headquarters training program requires, to master basic military knowledge and military theory, and become versed in the use of conventional weapons. They must become versed in the performance, purpose, and methods for using the weapons of their own branch of service, and understand basic combat operations. They must learn flexible movement tactics and master the basic combat methods of modern warfare. They must be physically fit, have stamina, and have indomitable fighting will no matter the adversity they may face. They must have a courageous and tenacious combat style, fearing neither sacrifice nor continuous combat. In peacetime, they must be able to perform independently combat readiness duties and various kinds of emergency, difficult, dangerous, and important missions. In wartime, they must be able to coordinate with regular forces in combat and to carry out combat missions independently.

**3. Greater Discipline.** Discipline is an important element in fighting strength. Militia are armed personnel that have small arms. Only through greater discipline can they become a highly centralized, unified, and indomitable fighting force. Therefore, strict discipline is a basic requirement of the militia. Strict discipline must strictly abide by political discipline. The militia must take the lead in carrying out the party's line, plans, and policies. In all their actions, they must resolutely harken to the orders of the CPC Central Committee. They must resolutely execute the "Three Main Rules of Discipline and Eight Points for Attention," obey orders from higher authority, listen to organizational direction, and make sure to do whatever is ordered and stop doing whatever is prohibited. They must strictly abide by all militia organization rules and regulations, and resolutely fulfill all military and political training and combat service tasks. Strict discipline also requires observation of national laws and decrees and social mores, acting as models in observing discipline and upholding the law.

**4. Acquiring Scientific and Cultural Knowledge.** During the building of socialist market economy institutions, of advances by leaps and bounds in the building of the country's economy, and of changes in science and technology with each passing day, economic development relies increasingly on advances in science and technology. The development of productivity is also determined by the cultural caliber and the skill in construction and production of the work force. The rank and file of militiamen are on the front lines of production and construction. They must serve as pacesetters and models in production and construction, advancing the development of production and the prospering of the economy. Accelerating construction of the motherland urgently requires study of both scientific and cultural knowledge to improve production skills. Militiamen must love and become expert in whatever job their position requires them to do. By applying

themselves to the study of scientific and cultural information, they can become little crackerjacks and little experts in their field, perform creative labor, and complete complex and highly technical production tasks having high quality requirements. City and town militia must apply their great political enthusiasm, their fine scientific and cultural attributes, and their production skills to active participation in reform, making a contribution to the transformation of operating mechanisms, invigorating large and medium-size enterprises, and accelerating the building of the economy. The rank and file of militia in rural areas and in early-liberated, minority nationality, border, and poor areas must rely on the Party's policies for enriching the people as a golden key, striving to study culture and science, to use science and technology to make agriculture prosper, to cure ignorance and escape from poverty to become leaders in local economic development.

#### Enhance Military Training

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[CHINESE MILITIA] in Chinese No 7, 9 Jul 94  
pp 19-21

[Unattributed article from series "Four Lectures on Militia Political Indoctrination in 1994": "4. Better Training To Improve Military Quality of Militia"]

#### [Excerpts] [Passage omitted] Militia Training Emphasis

The militia may be found everywhere throughout the land, in every trade and profession, in the south and in the north, and in cities and rural villages. Furthermore, male and female militia differ in character, the basis for becoming or not becoming a member of the militia differs, and the training of technical and nontechnical militia differs. Training requirements for leading cadres and combat personnel differ. In this article, however, the emphasis is on the important points in common in militia combat-readiness training.

**1. Proficient Understanding of the Weapons in Their Hands; Skilled in Modern Guerrilla Tactics.** The weapons in their hands are the second life of soldiers. It is equally true that militia must cherish the weapons in their hands, and be skilled in the operation of the weapons in their hand. They must be able to aim accurately and fight fiercely. When using modern weapons, only use of their massed power is effective. Therefore, it is necessary to be versed in their technical and tactical coordinated employment. Central Military Committee Deputy Chairman Liu Huaqing said: "A good job must be done of administering, building, and training the militia and reserves. In particular, training in guerrilla tactics must be emphasized. Militia will have to learn how to wage guerrilla warfare for future local combat; thus, this kind of training must be emphasized." Guerrilla warfare is the specialty of China's militia. During the period of the War of Resistance Against Japan, the broad masses of militia fought in active coordination with the Eighth Route Army and the New Fourth Army, using all kinds and models of weapons. They waged people's guerrilla warfare of unprecedented vigor in the

high mountains and dense forests, on rivers, lakes, harbors, and streams, on the plains, in tunnels, and shrouded by growing crops. With astounding bravery and resourcefulness, and boundless wisdom, the militia applied their knowledge of the terrain and favorable conditions to create ingenious tactics, including land mine warfare, tunnel warfare, sabotage warfare, attrition warfare, and small band guerrilla warfare. The struck everywhere, appearing and disappearing mysteriously, laid sieges, wore down, wearied, and attacked the enemy. How glorious were the combat achievements of the militia at that time, and how storybook-like were the militia heroes who came to the fore at that time. They are still widely talked about by the masses of the people. But times have changed. Faced with the new situation of modern, high technology warfare, we must act according to the instructions of Comrade Deng Xiaoping. In a future war, we must unwaveringly adhere to people's war ideology; however, the form in which people's war is expressed must change as conditions change. Deng Xiaoping said: "People's war today is different than formerly. Equipment is different, and methods are different too. Nowadays the militia has large numbers of weapons that are much better than the conventional weapons we had during the war of liberation. The militia has missiles for battling tanks that are entirely different than previously. Nevertheless, tactical thinking remains people's war. Conditions are different, and the way in which people's war is expressed is different. Weapons improvements means people's war is more powerful." Deng Xiaoping emphasized that the "old guerrilla war is still useful under modern conditions. For example, militia coming out of tunnels to use missiles in attacks on tanks is a guerrilla combat method using modern arms. Or they may hide in mountain caves, suddenly appearing and attacking the enemy. The cover of darkness or nearby tunnels may be used to conduct sudden attacks on airfields." We must act in accordance with Comrade Deng Xiaoping's instructions, relating them to local terrain and social conditions, and studying how to wage people's war under modern conditions in a future war against aggression. This includes kinds of warfare, strategy, and tactics. The basic way in which militia wage war is local guerrilla warfare, coordinating with main forces to pursue and annihilate the aggressors. This requires various kinds of preparatory work. 1) Doing a good job of joint defense by conventional forces, people's armed police, and militia. The People's Liberation Army [PLA], the People's Armed Police, and the militia are the country's three armed forces. Formerly conventional forces, guerrillas, and the militia waged people's war together. Today, field armies, local forces, and the militia wage war together. If an enemy invades, the Chinese "three-way combination" will drown him in a boundless sea of people's war. In peacetime, conventional forces, the People's Armed Police, and the militia must work together on defense, guarding important targets such as factories, mines, railroads, important tunnels, bridges, and military facilities; preparing to deal with any sudden incident; and preventing enemy attacks and sabotage. 2) Advance plans for fulfilling battlefield service.

In wartime, the militia must work actively with conventional forces in shouldering wartime duties such as being responsible for protecting local governments, safeguarding social order, and harassing and wearying the enemy. They are responsible for broad reconnaissance of the enemy's situation and the collection of battlefield intelligence, and for transporting materials, giving first-aid to the wounded, building roads and protecting bridges, guarding prisoners, and mopping up enemy remnants in support of the front line to ensure smooth conduct of warfare. Militia assigned to border defense and ocean defense duties may play many important roles in warfare to protect the frontiers. The main forms are as follows: coordination with conventional forces in taking part in border counterattacks in self-defense; setting up militia border defense patrols, ocean defense patrols, air defense patrols, seasonal patrols, or roving patrols; responsibility for working in conjunction with the livestock industry, the fishing industry, and forestry to report enemy intelligence, forming a huge reconnaissance network that enables conventional forces to have a more accurate and more detailed understanding of the enemy situation; coordinate with the People's Armed Police and public security forces to control frontiers, crack down on activities inimical to national security, and prevent people from sneaking into or escaping from the country. In short, they make use of the power of people's war to attack the enemy everywhere. 3) Good wartime air defense, city air defense, and people's air defense preparations, devoting particularly close attention to the air defense of large industrial areas and large and medium size cities. Much work must be done on air defense matters that requires an understanding of air defense information in which many components are integrated. Air defense works must be complete, and wartime air defense advance plans must be made. The Militia must understand how to use the air defense works and play a major role in air defense.

**2. Increase Rapid Mobilization Capabilities.** Good performance in wartime personnel mobilization work is important to winning victory in a future war. From the standpoint of the defending country, good performance in personnel mobilization at the outbreak of war can blunt the thrust of an enemy surprise attack, stabilize the initial war situation, and maintain or recover the strategic initiative. Good performance in continued mobilization later on as the war progresses can rapidly translate latent combat strength into actual combat strength. It can also change the power ratio between the enemy and ourselves, thereby turning around the battle situation so that it develops in a direction favorable to us, enabling us to win. Active service units are the backbone of wartime mobilization; militia and reserve duty personnel are the foundation. Doing a good job of mobilizing militia and reserves requires maintenance of a system for meshing militia and reserves. Solution to the modern warfare problem of mobilizing needed reserve of troops and cadres, and solving the problem of rapid mobilization to meet the needs of combined arms armies when war occurs suddenly, requires both maintenance of a conventional militia system and the

establishment and perfection of a reserve system. This requires, in turn, greater militia building, particularly the building of a hard core militia, providing good military and political training, and doing good preparatory work, on active reserve officers, the emphasis being on good preparation of technical troops. "Everyone shares responsibility for the nation's success or failure" runs a saying. A high degree of patriotic fervor, and model performance of military service duties must be inculcated in the rank and file of militia active reserves, so that should the motherland suddenly need them, they will go into action as soon as directed, move into glorious positions in defense of the motherland, work in coordination with the PLA, and fight valiantly to annihilate the invading enemy to protect the sacred motherland.

**3. Increase Ability To Carry Out Combat Missions.** Comrade Jiang Zemin emphasizes that "reserve forces must also be created that will come when called, will come ready to do battle, and that will be able to win." Increasing ability to discharge combat duties depends largely on training and cultivation. Simply staffing militia organizations and active reserve units with people who do not understand military affairs and have no fighting ability will not complete combat missions. Therefore, training that has fighting as its goal must be extremely real. The great teacher Engels said that "Although national fervor holds enormous significance in warfare, if training is lacking and there is only fervor, no one will be able to win victory." Warfare is a contest of blood and fire, and a battlefield is an arena with real guns and ammunition. Our victory in a future war against aggression cannot be won by relying on "moral victory methods," nor can the least bit of falseness be countenanced. If we go to the battlefield to face an enemy armed with real guns and real ammunition, but we are unable to use the weapons in our hands, or if our technology is not superb, we may fire numerous rounds without killing a single enemy, or we may fire numerous guns without hitting a single target. Not only will be unable to annihilate the enemy, but we may be annihilated by the enemy. There is no two ways about this. With rapid advances in science and technology and steady improvement of weaponry, tactics are becoming more complex. Only through arduous military training to master the art of killing the enemy can we wipe out the enemy and preserve ourselves, and stand the test of blood and fire on the battlefield in a future war against aggression. Pit people against each other on the training field to see who are the heroes and who are the real men. This means we must proceed from the needs of real warfare as the General Staff-promulgated "Militia Training Outline" requires. We must diligently apply ourselves and train arduously without fearing hardship, weariness, or dirt to a superb ability to overcome the enemy and win victory. In addition to concentrated training to improve the ability of militia active reserve units is the peacetime founding of a system for toughening through emergency, difficult, dangerous, and important missions. This will lay the groundwork for carrying out wartime combat missions.

**Good Political Work To Ensure Quality of Militia Training**

At a time of many real problems involving personnel, time, and expenses, it is really not easy to devote a period each year to the concentrated training of militia active reserves. We must do more political ideology work to gain the support of leaders concerned, increase the appeal and cohesiveness of the militia, and stir active militia reserves' interest in training. This is the only way of really carrying out the plans, principles, and key points of training to maintain a correct training orientation. It is the only way to solve in a timely fashion the ideological problems that show up in training, and to stimulate interest in training of the militia trainees. It is the only way to foster militia unity, observance of discipline, and a courageous and tenacious combat spirit. It is the only way to spur mass troop training enthusiasm, to spur training reforms, to ensure full completion of training missions, and to improve the combat ability of active militia reserve units.

**1. Pervasive Ideological and Political Mobilization To Improve Trainee Understanding.** A thorough survey must be made before training begins to gain an understanding of trainees ways of thinking, hardships, real problems and needs under a socialist market economy, and to comprehend their ideological situation and family circumstances. Individual heart-to-heart talks, and family visits should be used as part of ideological work with trainees and their families. This helps improve understanding and solve real problems to create conditions for their participation in training. When training begins, a mobilization meeting should be held first to transmit to the trainees the pertinent training instructions of higher authority and to set forth concrete plans for their implementation, to clarify the goals and significance of training, to solve ideological understanding problems in a pertinent way, and to raise specific requirements. Campaigns should be launched in which everybody expresses determination, works up actions to be taken, and engages in competition, thereby creating a bustling troop training atmosphere.

**2. Establishment of Temporary Party and Youth League Organizations To Bring Into Play the Vanguard and Model Role of Party and Youth League Members.** Simultaneous with concentrated militia training, application must be made for higher level CPC Committee approval to set up temporary party and Youth League organizations with separate branch headquarters, group meetings, and active launching of campaigns that bring into full play the central leadership role of the party organization in training, the inspirational propaganda and agitation role of the temporary party and Youth League organization in training, and the vanguard and model role of CPC and Youth League members in training.

**3. Conduct of Mass Ideological and Political Work.** Ideological and political work in training must be done jointly by cadres and the militia. 1) Militia cadres and on-the-scene instructors must examine reasons for changes in the thinking of trainees at different training stages, on different training topics, and in different training environments. They must be aware of the background, the education level, the ideological basis, the technical basis, and the



skills of all personnel, as well as the different ideological problems arising therefrom in order to do ideological work in a focused way. They must use strict training, strict requirements, patient persuasion, and systematic guidance together. They must not be resentful, not be prejudiced against, not dress down, not be sarcastic or belittle, or not administer corporal punishment under a disguised pretext against those whose learning ability is not very good. 2) They must give a key role to party and Youth League members, make sure that propaganda and agitation work permeates all training tasks, promptly propose agitation slogans as training progresses and the trainees thinking changes, and conduct small group troop training and competition campaigns. They should use wallboards, blackboards, and literary and artistic programs to publicize good training performance, to propagandize the deeds of advanced role models, and to spread classic experiences to maintain high training morale among the militia. 3) They must practice military democracy. Leaders must carry out the mass line, listen to the views of the masses with open minds, and respect the masses' spirit of innovations. Trainees must establish a sense of being in charge of their own affairs, actively proposing ways and means to improve military training. They should use their brains when evaluating teaching and training, and think of ways to solve difficult problems encountered in military training. Officers should teach soldiers, and soldiers should teach soldiers in active mutual assistance with ideology and skills to help comrades having a poor foundation catch up.

**4. Improvement of Administration and Management; Attention to Improving Daily Life.** Training should be hard and strict, and attention should be paid to a combination of work and rest. Study, rest, and entertainment must all receive attention. Good food should be provided, and efforts made to improve living conditions. Trainees should earnestly abide by all rules and regulations and take good care of their weapons and equipment. They must rigorously observe organizational command and discipline on training grounds. When firing live ammunition, in particular, they must strictly abide by operating procedures to prevent accidents of various kinds. They must strictly abide by the three main rules of discipline and the eight points for attention. When violations of mass discipline and transgressions of mass rights and interests are found, they are to be promptly compensated as regulations from higher authority require, and corrective action is to be taken.

**5. Reliance on Government and Entrepreneurial Units To Solve Real Problems of Training Expenses.** "Militia Work Regulations" provides that "local people's government shall adopt measures to even out the burdens when rural militia and militia cadres engage in military training, subsidies being provided for missed work at the income level of similar local workers." When militia and militia cadres from entrepreneurial units are taking part in military training, their parent units are to pay wages and bonuses, and their former welfare benefits shall not change. Their food assistance, lodging, and travel expenses

are to be paid by their parent unit as a government-stipulated project." Militia campaigns that entrepreneurial units organize at their own volition shall be paid for by the units themselves." If proper arrangements are not made for the above trainee benefits, accomplishment of the militia training missions will be impaired. Training organizers should request the government department and unit concerned to solve the problem fairly, informing them of the pertinent provisions of the "Military Service Law," and "Militia Work Regulations."

### **Description of Nighttime Red-Blue Exercise**

94CM0362A Beijing JIEFANGJUN BAO in Chinese  
16 Jun p 1

[Article by Su Ruozhou (5685 5387 5297) and Yan Jinjiu (7051 6855 0036): "Night Tiger: From Platoon to Division"]

[Text] This evening, we found ourselves at Motian camp in western Henan, where the stars were hidden from view and silence reigned supreme. Lying low among a criss-cross network of ravines was a crack force, waiting for an opportunity to launch a reinforced infantry division nighttime mountainous region attack.

Suddenly, a "Blue Army" reconnaissance helicopter takes to the air to conduct reconnaissance against the forward positions of the "Red Army," while the "Blue Army's" advanced night vision equipment and radar, and electronic high technology equipment, form an air-to-ground reconnaissance monitoring net. The reporters lifted the night observation equipment and saw that the infantry had already divided into groups to form various lumps of earth here and there, while the artillery had become woods, tractors had changed into single-story houses, and the tanks into earthen ridges. In the distance one could see the assembled forest of dummy targets. This method for confusing and blinding the enemy by hiding the real and showing the false, along with the various camouflage measures directed at the enemy's advanced reconnaissance capabilities, made it difficult for the "Blue Army's" reconnaissance monitoring net to distinguish the genuine from the false.

Under cover of a rising smoke screen, "Red Army" troops used the terrain and surface features and rapidly met the enemy along many routes and from many directions. Meanwhile, a "Red Army" jammer interfered with the command system of the "Blue Army," and an artillery group, using rapid fire to inhibit the firing of the "Blue Army," shielded the ground troops and forced contact with the enemy while rapidly spreading out, taking on a full in-depth attack posture.

The "Red Army" commander, hidden in a command vehicle located in a bunker, nervously analyzed and studied the "enemy" situation through what information the nighttime reconnaissance equipment, including our army's reconnaissance planes, radar, low-light television cameras, battlefield monitoring systems, and thermal images, provided. He also drew on the assistance of the

automatic command system, which at any given time was transmitting various types of combat orders to front attack groups, deep-thrust attack groups, vertical attack forces, parachute landing forces, anti-tank missile squads, and mobile security groups. He organized command of ground all-force operations in close coordination with the air force and anti-aircraft units for the frontal storming of enemy positions, rapid overrunning of points, and direct insertions, and setting up small group infiltrations over multiple pathways, airborne overhead attacks, interdiction regions, and interception and surrounding missions. He was conducting a contest with an "enemy" using advanced nighttime equipment.

The general army training headquarters leaders told us that of the several parts of the combat exercises now occurring, the majority were being done at night, and our army's traditional night combat methods were facing a serious challenge. In order to raise the overall nighttime combat effectiveness of the army under modern conditions, at present, a large number of units are changing their night training starting point from the past focus on mastering small unit nighttime tactical training to grasping division and regiment nighttime combined combat training. Today, the exercise organized by this certain division represents this new change. We should cast our eyes on the front line of world military development, raise the long and avoid the short, and make our "night tiger," under high tech conditions, again be a threatening tiger.

#### Oxygen Stations Set Up in Qinghai-Tibet Plateau

94CM0362B Xining QINGHAI RIBAO in Chinese  
22 Jun p 1

[Article titled: "Along the Qinghai-Tibet Border 'Three Stations' Establish High Plateau Oxygen Stations"]

[Text] Along the Qinghai-Tibet border, more than 20 military depots, pumping stations, and maintenance stations (abbreviated as "three stations") have created high plateau oxygen stations. After one year of test use, the oxygen-making equipment operation is performing steadily and has proved effective in relieving altitude sickness among "three station" officers and soldiers caused by the lack of oxygen on the high plateau. It has also reduced the incidence of mountain lung edema, mountain brain stupor, and other high altitude illnesses, and it has improved the health of troops endangered by the lack of oxygen on the roof of the world.

The celebrated Qinghai-Tibet highway, the highest in the world, sports a pipeline for transporting oil, as well as defense communications lines, and passes through the great Gobi Desert, along glaciers and snow-capped peaks. Its average altitude is more than 4,000 m. Throughout the year, among "three station" troops shouldering the missions of providing board and lodging to personnel entering and leaving Tibet and ensuring communications and the operation of the oil pipeline, 57.8 percent come down with high plateau heart disease and lose their normal heart rhythms due to the lack of oxygen on the high plateau,

while 88.8 percent have high plateau polyhaemia, and 48.64 percent have increased red blood cell counts. This seriously effects the health of these officers and soldiers. At the end of 1988, thanks to the profound concern of the Central Military Commission and General Logistics Department senior officers and relevant departments, five years of hard work was concluded. This was research on a "high plateau oxygen-making machine," which was carried out by the GLD Qinghai-Tibet Military Depot Department Logistics Department Health Section and the Military Academy of Medical Sciences Health Equipment Research Institute. In May of last year, they organized specialized technical personnel to install these machines along the border, do debugging, and supply "three station" officers and soldiers with the equipment for trial use.

A joint investment of more than 1.5 million yuan established the "three station" oxygen stations, which are equipped with a high plateau oxygen-making unit, an air compressor, oxygen storage tanks, and an oxygen transport tube. The machine can produce oxygen within 10 seconds of being started, and the oxygen purity level is higher than 92 percent, with two cubic meters of oxygen produced per hour. The oxygen passes through the transport tube to the meeting room and the dormitory bedsides. The meeting room uses a segmented transport tube, and officers and soldiers, when holding meetings, studying, or watching television, can have 15 to 20 people supplied with oxygen at once. The oxygen delivery tubes installed at the bedsides make it possible for officers and soldiers to breathe oxygen when they please when resting. The military depot oxygen station is also equipped with a compressed oxygen unit, which can provide for passing personnel at their leisure oxygen bottles or pouches filled with oxygen.

The "three station" oxygen stations operate from two to three hours each day and produce an amount of oxygen that can ensure that each officer and soldier every day breathes for one hour (60 liters). According to spot tests, in regions with a serious lack of oxygen, if every person every day breathed oxygen for one hour, this could effectively relieve headaches, dizziness, and fatigue caused by lack of oxygen. It would improve heart and lung function, reduce blood thickening, strengthen the metabolism, and help prevent disease.

#### Militia Public Order Role in Minority Locale

94CM0399A Guiyang GUIZHOU RIBAO in Chinese 1  
Aug 94 p 7

[Article by Investigation Unit, Political Department, Xingyi Military Subdistrict: "Survey and Thoughts About a Public Order Corps in Which the Militia Is the Main Element"]

[Text] In a socialist market economy, the maintenance of social order faces numerous new situations and problems stemming from inadequate numbers of police and heavy public order duties. Can the militia in minority nationality areas accomplish much to keep society stable? We recently conducted an investigation on this question in eight counties (or cities) in Qianxinan Autonomous Prefecture

[Guizhou Province]. Results of the survey confirm that the methods, character, role, and achievements of public order units made up of People's Armed Police from all levels in the autonomous prefecture, working in conjunction with public security units in townships (or villages), members of the primary militia playing a leading role, merits endorsement and spread elsewhere.

#### **Public Order Detachments Play Major Role in Keeping Society Stable**

Qianxinan Autonomous Prefecture, which neighbors Guangxi and Yunnan Provinces, has a population of 2.61 million and totals 16,000 square kilometers in area. It is divided into eight counties (or cities). Forty percent of its population are minority peoples, including the Bouyei, Miao, Hui, Yi, Yao, and the Yilao. Ninety-three percent of the population are peasants. People in the prefecture move around a lot, the social situation is complex, and numerous factors for instability exist. For this reason, People's Armed Police units at every level in the prefecture have set up public order detachments and stockaded village teams in which nearly 10,000 members of the primary militia hold key positions in more than 120 townships (and towns), and more than 2,000 villages (or stockaded villages). These detachments and teams take an active part in the maintenance of social order, and play a major role in maintaining stability in minority nationality areas. First, they maintain the normal order of production and daily life. They maintain order in public places and stop quarrels and fights, drunken brawls, and market racketeering. They actively assist public security units in intercepting and arresting fugitives from justice, and in cracking down hard on robbers, murderers, hoodlums, rapists, and those who kidnap and sell people. They conduct security patrols, man duty stations at various locations, guard public buildings, protect villages, and crack down on hooliganism. They supervise and assist investigative organs, units, and villages (or stockaded villages) in drawing up and carrying out preventive measures for the maintenance of public order, and they encourage the formation of a comprehensive control network for the maintenance of public order. Incomplete statistics show that since 1993 alone, this autonomous prefecture dispatched militia on 400,000 occasion to assist in breaking more than 1,040 cases, captured more than 1,500 criminals of all kinds, halted more than 1,300 criminal activities in violation of the law, and mediated nearly 10,000 civil disputes. Second, it serves as the right-hand man of public security agencies, thereby helping solve the serious problem of insufficient public security and police manpower. During the high tide of rural economic reform, 68 of the 162 households in Bizuo Village, Bizuo Township, Ceheng-Bouyei Autonomous County, operated tertiary industries having an output value of 500,000 yuan per year. Everybody's income increased, and they lived well. However, privately run concerns and property were frequently robbed or carried away by ruffians. The public felt very disquieted about the disturbance of public order. Formerly, this township had only a single People's Armed Policeman, who usually had more to do than he could handle. After

establishment of a public order detachment made up of more than 20 primary militia members who patrolled night and day, public order in the village improved rapidly. Third, local military units have used one detachment that has some fighting capabilities in handling both the safeguarding of social order and performing dangerous tasks. On the evening of 8 June 1994, a torrential rain pounded the downtown area of Xingyi City flooding Xingyi City's granaries. The storm damaged 150,000 kilograms of grain, and endangering 1.5 million kilograms of grain. Following the disaster, public order detachments from Jishan Town, and Huangcaoba Town, which are under jurisdiction of Xingyi City, were the first to arrive at the site to move out the grain, thereby reducing damage to the country.

#### **Several Insights Gained Through Practice**

The first insight is to work under direction of public security organs. Today, Qianxinan Autonomous Prefecture is organizing the militia to take part in comprehensive control of social order under leadership of CPC committees and governments, and under direction of public security units at all levels in the prefecture. Both in the performance of self-defense duties, and in discharging emergency missions for the maintenance of public order, they coordinate with public security organs. People's Armed Police units handle the organization and the ideological and political indoctrination of public order detachments. They are also responsible for providing them military training and discipline. Each time the militia and militia weapons are to be used, a report is made up the chain of command to higher military authority for approval. When the militia seize criminals in the performance of their duties, it turns them over to a public security unit for disposition. In addition, ever since the founding of public order detachments, comrades from public security units have been invited each year to provide instruction in the basics of public order control and specific methods used in the performance of duties, providing on-the-job training.

The second insight is maintenance of joint defense according to law. People's armed police units at all levels in Qianxinan Autonomous Prefecture make sure to pay close attention to the lessons of history, meaning former instances in which "small militia detachments" arbitrarily arrested and jailed people, the militia taking the place of law enforcement organs to the detriment of the militia's image and creating a bad effect. In organizing militia public order detachments today, special emphasis is placed on doing things according to law. More than 120 townships (or towns) in the autonomous prefecture have set up a "three-in-one" militia public order joint defense coordination organization made up of the People's Armed Police, public security, and the militia. In the performance of specific duties, the county (or city) People's Armed Police and county (or city) public security units work in unison. People's Armed Police from township (or town) public security substations directly participate in duty assignments and the handling of cases. Offices have People's



Armed Police from the garrison area on duty. This underscores the legality of the militia's joint defense of public order. In addition, People's Armed Police units at all levels have a strict rule that public order detachments have no power to arrest or jail people, or retain fines. In dealing with people, they may only act according to law after having investigated circumstances, collated data, and making a report to the public security authorities for approval.

The third insight is provisions for paying compensation for the use of militia as a means of stirring the interest in the militia for the maintenance of social stability. Following a policy of public control and public defense, and abiding by the principles of "voluntary participation for mutual benefit," and using for the people what is taken from the people," Qianxinan Autonomous Prefecture has put into practice a system of paying compensation for services provided in the maintenance of public order. This has gone a long way toward solving the problem of finding ways to meet expenses.

#### Problems and Their Solution

Qianxinan Autonomous Prefecture's public order detachment, in which the militia are the main component, has not been in existence for very long, and it is not seasoned. It requires further improvement and development. It is currently facing some real problems in need of solution, such as the lack of general public acceptance of the payment of compensation for maintenance of public order; the too low caliber of personnel in quite a few public order detachments, which results in rather weak ability to complete tasks; and improper use of such detachments in some places.

How can the survivability of public order detachments be improved? We believe that the key lies in close attention to detachments building themselves, improving detachment caliber.

1. Location and staffing of detachments must be rational. Decisions to establish or not establish detachments and how many to establish must be based on each area's geographical location, economic conditions, and public order conditions. No rigid rules can be applied uniformly. Generally speaking, detachments should be set up along transportation arteries, in better economically developed areas, and where public order is not good. The number of personnel may be increased somewhat. Fewer or even no detachments should be set up in places where transportation is poor, the economy is fairly backward, and public order has been rather good. Alternatively, some factory protection units or stockaded village protection teams may be established, the members assembling when needed, but ordinarily devoting themselves mostly to production. They should produce during the day and patrol at night. Staffing must be reasonable when setting up public order detachments, the number of echelons reduced, small but crack units formed. Particular attention must be given to proper staffing of detachment cadres. In minority nationality areas, the training of minority nationality cadres must be given attention.

2. Payment for public order preservation services must be developed to a moderate extent. The survey found that the organization of militia to maintain order at mines and country fair markets was very much welcomed. In addition, the correlation between duty and payment must be handled well. The militia must be indoctrinated in a consciousness that society is in charge of itself in which "everyone is responsible for the maintenance of public order," and "everyone benefits from tranquility." The militia must inculcate a spirit of upholding obligations and making selfless contributions to contribute to the maintenance of social stability.

3. Close attention must be given to the assignment of good caliber personnel. The survey showed that public order detachments in which work efficiency was very high were made up of four kinds of people: public security professions, People's Armed Police cadres, retired servicemen, and grassroots militiamen. Outstanding people must be selected against standards through meticulous background checking and testing.

4. Better training in policies and discipline must be provided detachment personnel, and their understanding of the law and discipline must be improved. First, organizations themselves must be cleansed, their ideology improved, their work style rectified, and their understanding of the legal system improved. Each detachment must become a model collective that studies the law, knows the law, understands the law, and upholds the law. Militia public order detachments must establish a good image with the public and win public acceptance. Second is close attention to the mastery of principles. The organization of militia to safeguard social order entails coordination with and assistance to public security units. Therefore, militiamen should not exceed their purview to accept tasks that militia should not or cannot do, or that are unsuitable. Armed force absolutely may not be used to hand contradictions among the people. Instead, education and guidance must be used to dissuade from and halt conflicts. Authorities responsible for such matters should handle them. Third is strict observance of limits of authority for approving the militia's use of their weapons. Militia use of weapons must be according to applicable policy provisions. Reporting and approval procedures must be strictly followed. It is strictly forbidden for any individual or administrative organization to use the militia and militia weapons indiscriminately.

5. Actions must be integrated, all acting together for joint control. People's Armed Police units and public security agencies must regard these units as both public order detachments and a militia emergency detachments whose actions must be integrated, everyone acting together for joint control under leadership of CPC committees and the government. People's Armed Police units should concentrate on ideological and political work, military training, detachment organization, and discipline. Public security units should concentrate on providing guidance in applying the law and public security professional training.

We deeply believe that if all quarters concentrate their energies in common on these detachments, they can play a positive role, and will be able to make a new and greater

contribution to strengthening the unity of nationalities, safeguarding social stability, ensuring economic construction, and promoting militia work.

### Interview With Newly Elected DPP Chairman

94CM0347A Taipei TIEN-HSIA [COMMONWEALTH]  
in Chinese No 157, 1 Jun 94 pp 126-27, 129-30

[Interview with DPP Chairman Shih Ming-te by Yang Ai-li (2799 5337 0196) and Li Ming-hsuan (2621 2494 6513), place and date not given: "DPP Chairman Shih Ming-te: Taiwan Will Have Big Waves in the Future"]

[Text] [TIEN-HSIA] As the chairman of the Democratic Progressive Party [DPP], would you please tell us the main direction of DPP's development in the next two years?

[Shih] I hope that three things will be accomplished during my tenure as DPP chairman: The first thing is party reform, including the reform of party affairs, the party Central Committee, and local party organizations. The second thing is to develop a public policy focusing on the building of a welfare state. I hope that we can do this more meticulously than ever before. The last thing is to gradually form a shadow cabinet of our party.

When people talk about policies, they would ask where is DPP's shadow cabinet. I don't believe that a shadow cabinet will appear upon my assumption of the DPP chairmanship. But I will make an effort toward the establishment of a shadow cabinet in the embryonic form.

[TIEN-HSIA] Will factionalism within the DPP become an obstacle to party reform?

[Shih] Now, the question of factionalism is not so serious as before. In the past, there were only the Formosa Faction and the Non-Formosa or Pan New Tide Faction. When the two factions were in a state of confrontation, we could see their fierce struggle against each other. Today, the DPP has the so-called New Tide, Formosa, Welfare State, Just Alliance, and Taiwan Independence Alliance factions. When there are more factions, they will achieve a balance of force.

This is not my invention, Metternich once spoke of the balance of terrorism between two sides. But balance between two sides is by no means stable. Kissinger advocated a multilateral balance. Chairs with three legs and four legs are always more stable than chairs with two legs. The development of numerous factions within the DPP is a matter of course. If there were only the Formosa and the New Tide factions, they would act against each other everyday. Now, no factions dare to fight each other. They would think that if two factions fought each other, a third faction might gain advantage. This was how the so-called coordination culture was created. Now that numerous factions exist, factionalism is no longer a problem to the DPP.

[TIEN-HSIA] What is your comment on President Li's remark on "the grief of the Taiwanese"?

[Shih] I have found that the farther away Mr. Li Teng-hui is from the center of power, the closer is he to the truth. Conversely, the closer is he to the center of power, the more he loses himself. When he speaks in Taiwanese or Japanese, he can well express his thinking. But when he

talks in Pekingese, his words are often unintelligible. This was the case not only when he talked about the grief of the Taiwanese, but also when he made the remarks in Central and South America about the transfer of power in his lifetime and the remark in South African that he would make himself the de Klerk of Taiwan. All these were too obvious to address. He should, of course, transfer power to someone else in his lifetime. This is elementary democratic politics, the ABC's of democratic politics.

[TIEN-HSIA] Do you also feel that the Taiwanese have such grief?

[Shih] If we review Taiwan's 400-year history, we have to acknowledge that this is a fact. When I was a child, I saw American planes bombing Taiwan. After the war, there were the 28 February Incident and white terror. It is not so bad, however, because I have been able to extricate myself from such grief. In particular, I don't grumble because of the so-called grief of the Taiwanese. To know it is one thing; to translate it into grumbling is quite unnecessary, I think.

The Taiwanese are not the only people with such tragic history in the world. Once I talked with some foreign friends about the history of Central and South Americans. Those people, too, have a deep grief. At first, the Spanish came to rule them. Then, under the Monroe Doctrine, the United States bolstered one autocratic regime after another, and such tragedies went on without end. Even today, they still have racial problems.

[TIEN-HSIA] Many politicians are expounding the role to be played by the Taiwanese. What is the difference between you and them?

[Shih] If the intention is that someday the Taiwanese will become political oppressors or economic exploiters of the peoples of other regions, I do not agree with it at all. Rather, I would like to see the realization of the saying "Do not do to others what you don't want to be done to you," as the Chinese often say. This is the way that I myself have followed. On many occasions, I have refrained from abusing others. Moreover, I do not want to retaliate against those who have trampled on me. These are unnecessary, I think; otherwise, enmity will never end. Once I met with the court-martial judge who tried and sentenced me. I said gladly: "Congratulations on your promotion to the rank of major general." I thought that was what I should do.

[TIEN-HSIA] You were jailed for more than 20 years. How did you overcome your grievances?

[Shih] Speaking of my 25-and-half years of life in jail. I designated the first stage as a period of "arming myself with hardships and meeting pressure with firmness." While in jail, I read books everyday, including those on history and social science. The book that affected me most deeply was Toynbee's *A Study of History*. That stage was filled with vigor and toughness. At the second stage, though I protested by refusing to eat and was fed forcibly, my mind was not like the first stage. That is, I did not want to have my pains expressed on my face and my sufferings



reflected by my body. But when I looked at the mirror, I found that my face had changed. People said when comparing my real countenance with my picture, they found that I had different faces before and after I was jailed. They thought that was because I had plastic surgery done by Dr. Chang Wen-ying. I told them it was not the reason. As you can see, I have small eyes, slanted eyebrows, and thin lips. All these were the same if viewed individually, but my countenance as a whole did change. That was because a person's countenance is affected by his state of mind. If you have love, hatred, or a desire in your heart, it will be shown on your face, and all your facial muscles will deliver the message.

After this stage, however, I had a completely new mentality. I really had no hatred at all. On the contrary, I wanted to love people, to revere God, and to be a human rights worker. Perhaps I am a person qualified to discuss what distress is. It is comparatively easy to endure distress, but hard to resist temptation. When power, fame, and profit come, you can make a choice, so you struggle with yourself in your heart. When distress comes, it is beyond your control, and you must meet it with all your might. Some ideals are what I must pursue with perseverance. I also know what I may have to sacrifice in the reality of upholding these ideals and what I may encounter in fulfilling them.

For example, now we stand for a pension system for the elderly and the building of a welfare state. I made these proposals some two years ago at an important meeting of the DPP Central Committee. I said: "We must seek to become a ruling party, but the purpose is not to satisfy our own desire for power. We must ask ourselves what new things we will give to Taiwan or in what direction we will steer Taiwan after we have become a ruling party."

To achieve this goal, I ran for the post of legislator and cherish the hope of building a Taiwan welfare state. In the past, the Kuomintang paid no attention to welfare policies. Now, it does. In those days, many objectives we pursued in Taiwan were regarded as the greatest outrage. The people also deemed it impossible to realize these objectives. Through our democratization efforts, however, liberalization of political party formation, deregulation of newspaper registration, and change of the eternal parliament have now been realized one after another in Taiwan's society. Though it took a long time and we paid a relatively big price, we have accomplished them, after all.

[TIEN-HSIA] You are advocating a welfare policy. Aren't you afraid that business circles will react against your policy, which will increase their operating costs?

[Shih] I think what business circles see is only things on the surface. Take the national pension system as an example. You pay a certain amount to the insurance fund, beginning with your employment, and you get benefits when you retire. Once a security system for the entire society is established, capitalists will also be benefited. Many of the troubles we see today will be eliminated. Problems like work morale, public security, and support for the elderly will all be solved gradually under this system.

[TIEN-HSIA] But we have also noted that in many European countries social welfare has become a financial problem.

[Shih] That is true. I am not a person who insists that a theory can apply universally. After this system has been implemented for dozens of years, there might be changes in our social and economic conditions. At that time, perhaps you have to adjust it.

[TIEN-HSIA] Business circles have many alternatives. They can set up their factories overseas. That may have an even greater adverse effect on Taiwan.

[Shih] Business firms had begun moving abroad before I advocated the welfare policy. The question is that Taiwan's social development and economic structure have harbored the factors causing enterprises to move abroad, such as the high land price and workers' low morale.

[TIEN-HSIA] Take the pension for the elderly as an example. In turning the ideal into a policy, the DPP does not seem skillful.

[Shih] Whether the amount is \$5,000 or \$3,000 [New Taiwan dollars] or whether the pension is paid only for a few months in a year, these are only minor differences under the macro principle. After adjustment, a proper and reasonable figure will be worked out. The realization of an ideal involves a lot of difficulties, and I am by no means naive in this regard. Obstacles put up by the Kuomintang and differences in opinion within our party are normal. To me, these are no big deals. A leader should think of macro questions.

In fact, the Kuomintang should not rejoice too early. Even if a DPP-ruled county or city can only pay three months' pension a year or the amount is only \$2,000, what would the old men and women think when they see that the Kuomintang-ruled counties and cities have no such pension while the DPP-ruled counties and cities give them such pension? The Kuomintang should not think that it can make the DPP lose face and disgrace the DPP.

The social security system is a comprehensive system. There are many questions to look into. With regard to diplomacy, for example, now we say the Republic of China on Taiwan. This is what I said at the court over a dozen years ago. Li Teng-hui wants Taiwan to join the United Nations, and the DPP agrees to this. But we believe that now we have passed the stage when we could only do it without saying explicitly what we were doing. You should say clearly that Taiwan is a sovereign state. Otherwise, how can other countries recognize you and let you join the United Nations. In particular, the DPP stands for giving up the great army doctrine—that is, withdrawing our troops from Kinmen and Matsu and, instead, strengthening our naval and air force weaponry. The purpose of the great army doctrine is to launch an attack. Since our military policy is defensive, why should we keep such a big army? If our proposal is put into practice, there will be a considerable cut in our national defense budget while the strength of our navy and air force will be boosted to a great extent.

[TIEN-HSIA] The precondition for DPP's diplomatic and military proposals is that the Chinese Communists will not use force against Taiwan, isn't it?

[Shih] What is the most powerful weapon of the Beijing government against Taiwan at present? It is not the might of its navy and air force, but is the psychological threat. The psychological threat is effective when there is no war. When a real war breaks out, it will lose its effect. Fearing it does not relieve you of the threat. Suppose I stretch out my fist to attack you, and you try to escape and say you don't want to counterattack. But when I really attack you, will you not defend yourself? Will you not stretch out your fist?

In history, was there any country that survived by begging the enemy for mercy? Does Israel exist today because it begged the Arab countries for mercy? With only a 26,000-square-kilometer territory and a population of 3 million, Israel has to face the 200 million strong Arab people, and its land is surrounded by the latter. How can it survive? Israel must admire Taiwan, which has such a good geographical location. In dealing with the question about Beijing, I am not naive at all, but very pragmatic.

[TIEN-HSIA] What should Taiwan do? Should it declare independence?

[Shih] It would be unnecessary to declare Taiwan's independence. After all, two integrated and internationally legal entities have existed on the two sides of the Taiwan Strait for 40 years. In fact, there are many ways to show Taiwan's independence. Joining the United Nations is one way to show that Taiwan is an independent country. Another way is to declare that Taiwan's sovereignty covers only Taiwan, Penghu, Kinmen, and Matsu. If people feel that Taiwan's independence is an expression too annoying to them, we have many ways to avoid this.

[TIEN-HSIA] A series of major elections will be held in the future. Do you think that the DPP will have a chance to become a ruling party?

[Shih] I am not an advocate for immediately taking over the rule. The goals I have mentioned have nothing to do with immediately taking over the rule. In my opinion, we must first do something successfully. Only thus can we improve our party's image and make contributions to Taiwan after we take over the rein.

Here I would like to comment on the basic conditions of the leaders of the two parties. Now, all the Kuomintang leaders, except Li Teng-hui, are about 60 years old. Our age gap is about or even less than 10 years. However, our backgrounds are quite different. All Kuomintang leaders have beautiful diplomas and consummate work records. They have climbed up in the bureaucratic system and are familiar with the etiquette of official circles. Their faces are glowing with health, their hands tender, their clothes well fitting, and their words full of officialdom. However, you will find that they are flowers in the greenhouse. They are like broilers raised in the chicken farm.

The DPP leaders have either spent one or two decades in jail or have been weathered in the streets of Taiwan—

exposed to winds, the scorching sun, and torrential rains—or have been compelled to stay overseas, singing the song of the native land in twilight. Our toughness, perseverance, and capability of making breakthroughs cannot be matched by the Kuomintang leaders. We can work more than 10 hours a day and continue doing so for several months. The difference has been revealed in the trials of strength in the elections—we have the makings of leadership and the characteristic capacity of facing hardships and standing storms and waves. Taiwan will have big waves in the future. Can the flowers in the greenhouse and broilers in the chicken farm sustain the big waves? Can they ride on the mighty torrent of the history of Taiwan?

[TIEN-HSIA] Last year after the election of county magistrates and city mayors, you made a very important remark. You said that in Taiwan "the people are numb, and high-ranking officials are shameless." Now, do you still have the same feeling?

[Shih] Yes, I feel the same as before. Usually, when a corrupt case has occurred in a country, the government will fall immediately. In Taiwan, however, it doesn't matter if there are five or 10 cases of irregularities. At the most, the officials involved are transferred, or they are relieved of official duty for a few years and then come out again. They do not assume political responsibility for what they have done. They are very shameless. As for the people, when a corrupt case occurs in the government, they feel indifferent. When two such cases occur, they are still indifferent. They will still vote for the particular official. Or when they see the \$500 or \$1,000 offered, they will naturally cast their votes for him.

At that time, I made the remark really out of my emotions. Today, I have not changed. This was also the case in the recent speaker and deputy-speaker election.

[TIEN-HSIA] How do you look at Taiwan?

[Shih] I don't believe that any race is superior to another race. If you put black people in the same environment as white people and give them the same training from their childhood, black people can be as intelligent as white people. If white people grow up in yellow people's society, they will eventually have the same social habits as yellow people. I don't believe that any people is exceptionally superior. That fallacy was advocated by presumptuous Hitler.

In prewar time, the Taiwanese were diligent, hard-working, and economical. Perhaps they had the vigorous spirit of maritime people. After 40 years, however, these virtues have been replaced by filthiness, disorder, greed, and lack of social ethics and self-confidence. All these are acquired habits, not inherent nature.

Before and after I was jailed, my most profound feeling is that Taiwan lacks a mutually solicitous culture. Before I was jailed, Taiwan was agriculture oriented, and your conduct was dictated to a relatively great extent by such intangible things as family affection, love, friendship, and human relations. After our society became an industrial

and commercial one, however, utilitarianism quickly came to the fore. Now, everyone has to struggle for his safety and survival with no time to care about those intangible things. Contacts between people are interest-focused and pragmatic. In addition, with the collapse of the big family system, you have no sanctuary. You live in a mansion, and people are physically close to each others, but their hearts are far apart. Fundamentally, our cultural development should be extended to cover environmental protection, education, and people's daily life.

As a politician or an opposition party leader, I know how to uphold political ethics and face political temptations, and I can stand tests. My principle is applicable to others as well. Don't be afraid of hardships and torments. Make a correct decision on the values of life and avoid losing your bearing.

### **KMT Middle-Aged Political Talents in Short Supply**

94CM0382C Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 384 23 Jul 94 pp 34-35

[Article by Ssuma Wen-wu (0674 7456 2429 2976): "This Middle-age Group Is Similar to a Bonsai To Be Moved at Will by Anyone"]

[Excerpts] [passage omitted] The political records of both Wu Poh-hsiung and James Soong are not so glorious during the period when martial law was in force. No matter who is going to be nominated, he would be bitterly attacked by the Democratic Progressive Party. However, in comparison, Wu Poh-hsiung is better than James Soong in terms of finance, experience, ability, image and basic-level appeal. Although James Soong works hard, his relations with the provincial government and local authorities are strained and unnatural. Nevertheless, the final decision is made on the basis of one's loyalty to Li Teng-hui. On this point, Wu Poh-hsiung cannot match James Soong, because the latter rendered outstanding service in assisting the king in time of crisis.

However, what we like to discuss here are not Wu's or Soong's advantages and disadvantages. We like to discuss the crisis in the shortage of political talents within the Kuomintang. Wu Den-yih in the city of Kaohsiung is a rare political talent within the Kuomintang. However, the Kuomintang is unable to make up its mind on nominating the candidate for the Taipei mayoral race. It only pays attention to several high-ranking government officials in charge of administrative affairs who lack experience in election. While the brave and courageous generals of the Democratic Progressive Party are poised to launch their fierce attack, these Kuomintang high-ranking officials are only anxious to run away from the election. This is indeed an interesting contrast.

Ten years ago, Chen Li-an, James Soong, John Kuan, Frederick Chien, Lien Chan, Chao Shou-po, Kao Yu-jen, Vincent Siew and Ma Ying-jeou had already been regarded as the stars of tomorrow. Now, Lien Chan has become the

prime minister, while others are also high-ranking government officials. However, among these people, only few of them have experience in running for election, because the Kuomintang is an enclosed system of power. Its power does not directly come from the voters. During the period when martial law was in force, the Kuomintang, to a certain extent, had the fear of an outsiders' government for native politicians, particularly those with popular support. At that time, all those who were elected to take the official posts had no actual power. The actual political power was in the hands of those who had little experience in running elections. [passage omitted]

Under this condition, all the persons of ability cultivated by the Kuomintang are like flowers in a greenhouse. They resemble evergreen plants with green leaves, which will never wither. However, they are only pots of bonsai in a living room. They may be moved at will from one location to another, but they cannot stand direct sunshine or rainfall. Otherwise they would soon wither. This is an internal factor as to why most of them dare not participate in any election campaign. They need the support from party organizations and the party's financial assistance. Without the party's support, they find themselves helpless and isolated just like Christians driven out by the churches in the Middle Ages. All of them live off the Kuomintang's past gains. Very few of them are able to earn something for the Kuomintang.

Naturally many persons of ability were brought up by the elections in the past 40 years. It is a pity that their images have been greatly distorted in the struggles for power. Only a handful of them are able to maintain their images. Since the image of those who are experienced in running election is not so good, the Kuomintang has to exclusively rely on aristocratic family background and academic achievements in nominating bureaucrats in charge of administrative affairs as candidates for election. Those who make decisions in nominating candidates for election have divorced themselves from the local people. Nearly all of them lack the experience in running elections. Even if they have some experience, it was a long time ago. Now the Kuomintang suddenly finds itself facing a new era in which political power is to be decided by ballots. No wonder it does not know what to do.

Originally this group of middle-aged politicians were headed by Chen Li-an. However, as a devoted Buddhist, he likes to persuade people to give up things such as power, fame or money and to open up. He gives people an image of always urging them to bow out. Edward Kuan was once a vigorous Kuomintang campaigner. Being regarded as a sympathizer of the Chinese New Party, he is now in an awkward position within the party. Kao Yu-jen has rich experience in running elections. No one can match him in the Kuomintang. However, he is not the best candidate as far as his image and prestige are concerned. Wu Poh-hsiung had succeeded in withdrawing his name from the governor's race, while others have no experience in running for election. This leading body headed by Li Teng-hui is faced with an extremely fierce challenge.



All those in the Democratic Progressive Party are aggressive fighters. They are totally different from those in the Kuomintang who are used to gaining instant fame. Let us take the governor race as an example. On an one-for-one basis, any one of the those in the Democratic Progressive Party such as Hsu Hsin-liang, Chen Shui-bian, Su Tseng-chang or You Ching can horribly beat James Soong. However, every party has its own burden. The Democratic Progressive Party has its own structural problem of "self-defeat." In an overall battle between one party and another, the Kuomintang still seems to have a better chance to defeat the Democratic Progressive Party.

Wu Poh-hsiung's withdrawal from the governor's race serves as a good lesson to Lin Yang-kang. However, the Kuomintang is pitifully short of political talents. Middle-aged politicians in the party are gradually becoming old, while the new generation has not grown up yet. They are

not like those in the Democratic Progressive Party with its old, the middle-aged and the young bearing down menacingly. From now on, those who have no votes have no political power. If the Kuomintang dare not face this challenge and still promotes people to higher positions in a form of artificial cultivation, it is quite possible that it would lose its political power in these two forthcoming elections.

Power has its own inertia. Perhaps, we should let the Kuomintang lose its political power and have its first taste of being an opposition party so as to break down its feudalist tradition of awarding official ranks to anyone at will and establish, as early as possible, a democratic system in which uses the will of the people is regarded as the foundation; elections are used to select persons of ability and votes are counted to decide the political power.

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